

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MILPITAS APPROVING THE APPRAISAL REPORTS AND ADOPTING THE FAIR MARKET VALUE FOR AN ACRE OF LAND FOR THE PURPOSE OF CALCULATING PARK IN-LIEU FEE**

**WHEREAS**, Milpitas Municipal Code Section XI-1-9.07 (“Amount of Fee In Lieu of Land Dedication”) sets forth the method for the City Council to determine the fair market value for an acre of land in the City of Milpitas (“City”) to be paid in lieu of dedication of park land for certain subdivision projects; and

**WHEREAS**, on December 11, 2014, Smith & Associates in accordance with their contract with the City submitted two appraisal reports to determine the fair market value of an acre of land in the City of Milpitas for the purpose of developing a park in-lieu fee; and

**WHEREAS**, on January 6, 2015, the City Council considered the appraisal reports and other evidence presented by City staff and other interested parties.

**NOW, THEREFORE**, the City Council of the City of Milpitas hereby finds, determines, and resolves as follows:

1. The City Council has considered the full record before it, which may include but is not limited to such things as the staff report, appraisal reports, testimony by staff and the public, and other materials and evidence submitted or provided to it. Furthermore, the recitals set forth above are found to be true and correct and are incorporated herein by reference.
2. The fair market value of one acre of land outside of the Transit Area Specific Plan and Midtown Specific Plan areas in the City of Milpitas for the purpose of determining park in-lieu fee is hereby adopted and determined to be \$53.00 per square foot or \$2,308,680 per acre.
3. The fair market value of one acre of land inside of the Transit Area Specific Plan and Midtown Specific Plan areas in the City of Milpitas for the purpose of determining park in-lieu fee is hereby adopted and determined to be \$64.00 per square foot or \$2,787,840 per acre.

PASSED AND ADOPTED this \_\_\_\_ day of \_\_\_\_\_, 2015, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

ATTEST:

APPROVED:

\_\_\_\_\_  
Mary Lavelle, City Clerk

\_\_\_\_\_  
Jose S. Esteves, Mayor

APPROVED AS TO FORM:

\_\_\_\_\_  
Michael J. Ogaz, City Attorney

**APPRAISAL FOR**

**In-Lieu Park Fees  
Outside Midtown and Transit Area Specific Plan Areas  
City of Milpitas, California**

**File Number: T143836**

**PREPARED FOR:**

**Mr. Steven G. McHarris  
Planning & Neighborhood Services Director  
City of Milpitas  
455 E. Calaveras Blvd.  
Milpitas, CA 95035**

**PREPARED BY:**

**William O. Hurd, MAI  
AG034899**

**Terry S. Larson, MAI  
AG007041**

**SMITH & ASSOCIATES, INC.  
140 Town and Country Drive, Suite F  
Danville, California 94526  
Phone (925) 855-4950  
Fax (925) 855-4951**



## Real Estate Appraisal and Consulting

### Partners

Dennis L. Smith, MAI

Terry S. Larson, MAI

John E. Carrothers, MAI

December 11, 2014

### Appraisers

Paul M. Urvinitka, MAI

Lisa G. Wright, MAI

William O. Hurd, MAI

William C. Schnitzer, ASA

Robin Schwedhelm, MAI

Jacquelyn Lawrence

Thomas Tucker

Gregory Hansen

Doug Hogendorn

Gary Larsen

Matt Carriere

Mark Bacanskas

Oliver Gibbons

Lisa Federico

Chris Howel

Brian Kennedy

Jake Johnson

Tom Venuti

Gary Beckman

Mike Dixon

Mr. Steven G. McHarris  
Planning & Neighborhood Services Director  
City of Milpitas  
455 E. Calaveras Blvd.  
Milpitas, CA 95035

RE: Appraisal for In-Lieu Park Fees, Outside the Midtown and Transit Area  
Specific Plan Areas, City of Milpitas, California

Dear Mr. McHarris:

At your request, we have performed an appraisal for In-Lieu Park Fees. The purpose of the appraisal is to provide an opinion of the Average Market Value of a hypothetical one-acre parcel of land in the City of Milpitas, outside the Midtown and Transit Area Specific Plan areas with the potential of being developed with a park. This report does not consider any individual property, but rather looks at the Average Price per Acre throughout Milpitas, outside the specific plan areas, with residential zoning. The property rights considered are those of the Fee Simple Estate.

The client is the City of Milpitas. The intended user of this appraisal is the City of Milpitas and the intended use is to assist in setting in-lieu park fees to be charged to developers.

Though we looked at all recent land sales in Milpitas, it is residential use that triggers the need for parks and the desire is to have the parks within or adjacent to new residential development. Therefore, we included only land sales intended for residential use in our final analysis. Though we are not evaluating a specific parcel, our primary purpose is to provide an opinion of value of a hypothetical one-acre site therefore, our conclusions are considered an appraisal.

### East Bay Office

140 Town & Country Dr.

Suite F

Danville, CA 94526

Phone 925-855-4950

Fax 925-855-4951

### Silicon Valley Office

520 S. El Camino Real

Suite 342

San Mateo, CA 94402

Phone 650-212-1076

Fax 925-855-4951

### Sacramento Office

111 Woodmere Road

Suite 140

Folsom, CA 95630

Phone 916-357-5860

Fax 916-357-5868

Mr. Steven G. McHarris  
City of Milpitas  
Page 2

Based on our investigation and analysis, as described in the attached report, it is our opinion that the Average Market Value of the Fee Simple Estate in a potential park site location in the City of Milpitas, outside the Midtown and Transit Area Specific Plan areas, subject to the attached Extraordinary and General Assumptions and Limiting Conditions, and any Hypothetical Condition, as of December 1, 2014, is:

**\$53.00 per square foot**  
**or**  
**\$2,308,680 per acre**

The attached report contains the factual data and reasoning upon which the appraisal has been predicated. This report has been written in accordance with the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice (USPAP), and the City of Milpitas.

Please see the General and Extraordinary Assumptions and Limiting Conditions and Hypothetical Conditions regarding the values presented in this appraisal report, as shown in Section I - Introduction.



William O. Hurd, MAI  
Certified General Real Estate Appraiser  
State of California #AG034899, exp. date 8-17-2016



Terry S. Larson, MAI  
Certified General Real Estate Appraiser  
State of California #AG007041, exp. date 11-30-2016

WOH, TSL  
Enclosure

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## SUMMARY OF SALIENT FACTS AND CONCLUSIONS

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|                                    |   |
|------------------------------------|---|
| Client:                            | City of Milpitas  |
| Intended User:                     | City of Milpitas  |
| Property Location:                 | Milpitas land outside of Midtown & Transit Area Specific Plan Areas   |
| Property Type:                     | Potential Park Land   |
| Assessor's Parcel Number:          | N/A   |
| Land Area:                         | Hypothetical One-Acre Parcel  |
| Zoning:                            | Residential   |
| General Plan:                      | Residential   |
| Flood Hazard Zone:                 | No  |
| Alquist Priolo Special Study Zone: | No  |
| Present Use:                       | Residential   |
| Highest and Best Use:              | Residential – Suitable for Park Land  |
| Estate Appraised:                  | Fee Simple  |
| Purpose of the Appraisal:          | Determine the Average Price of a Hypothetical one-acre site.  |
| Value Premise:                     | Vacant and Ready for Development  |
| Appraisal Date:                    | December 1, 2014  |
| Average Market Value:              | <b>\$53.00 per square foot</b><br><b>or</b><br><b>\$2,308,680 per acre</b>  |
|                                    | Subject to the attached General and Extraordinary Assumptions and Limiting Conditions   |
| Appraisers:                        | William O. Hurd, MAI<br>Certified General Real Estate Appraiser<br>State of California #AG034899<br>Exp. date 8-17-2016<br><br>Terry S. Larson, MAI<br>Certified General Real Estate Appraiser<br>State of California #AG007041<br>Exp. date 11-30-2016 |

## CERTIFICATION

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We certify that, to the best of our knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
4. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.
8. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
9. No one provided significant real property appraisal assistance to the persons signing this certification.
10. We are not evaluating a specific parcel, but rather providing a mathematical conclusion to be used in the Milpitas Midtown and Transit Area Specific Plan areas. Because the purpose of this assignment is to provide an opinion of value of a Hypothetical one-acre site, this is considered an appraisal. Mr. Terry S. Larson, MAI, has had personal discussions with the City of Milpitas regarding the scope and structure of this appraisal.
11. As of the date of this report, William O. Hurd, MAI and Terry S. Larson, MAI have completed the requirements under the continuing education program of the Appraisal Institute.
12. While not limited to a specific property, Smith & Associates has done a similar appraisal for the City of Milpitas in-lieu park fees within the three-year period immediately preceding acceptance of this assignment.



William O. Hurd, MAI  
Certified General Real Estate Appraiser  
State of California #AG034899, exp. 8-17-16



Terry S. Larson, MAI  
Certified General Real Estate Appraiser  
State of California #AG007041, exp. 11-30-16

## **GENERAL ASSUMPTIONS**

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*This appraisal has been made with the following General Assumptions. An Assumption is defined as: "that which is taken to be true".*

1. No responsibility is assumed for the legal description provided or for matters pertaining to legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.
3. Responsible ownership and competent property management are assumed.
4. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.
5. All engineering studies are assumed to be correct. The plot plans and illustrative material in this report are included only to help the reader visualize the property.
6. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.
7. It is assumed that the property is in full compliance with all applicable federal, state, and local environmental regulations and laws unless the lack of compliance is stated, described, and considered in the appraisal report.
8. It is assumed that the property conforms to all applicable zoning and use regulations and restrictions unless a nonconformity has been identified, described, and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the opinion of value contained in this report is based.
10. It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.



## **GENERAL ASSUMPTIONS - CONTINUED**

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11. Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, and other potentially hazardous materials may affect the value of the property. The value estimated is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for such conditions or for any expertise or engineering knowledge required to discover them. The intended user is urged to retain an expert in this field, if desired.

## **GENERAL LIMITING CONDITIONS**

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*This appraisal has been made with the following General Limiting Conditions. A Limiting Condition is defined as: "a condition that limits the Use of an Appraisal".*

1. Any allocation of the total value estimated in this report between the land and the improvements applies only under the stated program of utilization. The separate values allocated to the land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
2. Any opinions of value provided in the report apply to the entire property, and any proration or division of the total into fractional interests will invalidate the opinion of value, unless such proration or division of interests has been set forth in the report.
3. Possession of this report, or a copy thereof, does not carry with it the right of publication.
4. The appraiser, by reason of this appraisal, is not required to give further consultation or testimony or to be in attendance in court with reference to the property in question unless arrangements have been previously made.
5. Disclosure of the contents of the appraisal report is governed by the Bylaws and Regulations of The Appraisal Institute.
6. Neither all, nor any part of the content of the report, or copy thereof (including conclusions as to the property value, the identity of the appraiser, professional designations, reference to any professional appraisal organizations, or the firm with which the appraiser is connected) shall be used for any purposes by anyone but the client specified in the report without the previous written consent of the Appraiser; nor shall it be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the appraiser. Any other party who uses or relies upon any information in this report, without the preparer's written consent, does so at their own risk.

## **EXTRAORDINARY ASSUMPTIONS**

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*This appraisal has been made with the following Extraordinary Assumptions. An Extraordinary Assumption is defined as: "an assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions". The use of the Extraordinary Assumptions might have affected the assignment results.*

1. This Appraisal is intended to determine the Average Market Value of a hypothetical one-acre parcel of land in the City of Milpitas outside the Midtown and Transit Area Specific Plan areas with the potential of being developed with a park. This report does not consider any individual property, but rather looks at the Average Sales Price per Acre of that land.

## **HYPOTHETICAL CONDITIONS**

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*This appraisal has been made with the following Hypothetical Conditions. A Hypothetical Condition is defined as: "a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis". The use of the Hypothetical Conditions might have affected the assignment results.*

1. None

## **IDENTIFICATION OF THE PROPERTY**

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This Appraisal is intended to determine the Average Market Value of a hypothetical one-acre parcel of land in the City of Milpitas, outside the Midtown and Transit Area Specific Plan areas with the potential of being developed with a park. This report does not consider any individual property, but rather looks at the Average Sales Price per Acre for residential land outside the Milpitas Midtown and Transit Area Specific Plan areas.

## **PURPOSE AND PROPERTY RIGHTS APPRAISED**

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The purpose of the appraisal is to provide an opinion of the Average Market Value of a hypothetical one-acre parcel of land in the City of Milpitas, outside the Midtown and Transit Area Specific Plan areas with the potential of being developed with a park. The property rights are those of the Fee Simple Estate.

## **INTENDED USER AND INTENDED USE**

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The intended user of this appraisal is the City of Milpitas and the intended use is to assist in setting city-wide in-lieu park fees to be charged to developers outside the Midtown and Transit Area Specific Plan areas. It is not to be used by any other entity for any purpose without the written consent of the appraisers. The appraisers are not responsible for unauthorized distribution and/or use of this report.

## **EFFECTIVE DATE OF THE APPRAISAL**

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The effective date of the appraisal is December 1, 2014.

## **COMPETENCY PROVISION**

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The appraisers possess both the knowledge and required ability to appraise property within the City of Milpitas. It is within the Smith & Associates, Inc. defined service area and the appraisers have the required resources, including zoning information, Assessor's records, Multiple Listing Service, Loopnet, Landvision and CoStar Comps, Inc. The appraisers affiliated with Smith & Associates, Inc. have appraised numerous properties of a similar type in the area and its competing environment. **Please see a copy of the appraiser's qualifications in the Addenda.**

## DEFINITIONS

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### Fee Simple Estate

*"Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."*<sup>1</sup>

### Market Value

*"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:*

- a. Buyer and seller are typically motivated;*
- b. Both parties are well informed or well advised, and acting in what they consider their own best interests;*
- c. A reasonable time is allowed for exposure in the open market;*
- d. Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and*
- e. The price represents the normal consideration for the property sold unaffected by creative financing or sale concessions granted by anyone associated with the sale."*

<sup>2</sup>

### Average or Central Tendency

*"The tendency of samples to cluster around a central point, or representative value, in a frequency distribution."*

### As Is Market Value

*"The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date."*<sup>3</sup>

### Cash Equivalency

*"An analytical process in which the sale price of a transaction with nonmarket financing or financing with unusual conditions or incentives is converted into a price expressed in terms of cash."*<sup>4</sup>

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<sup>1</sup> The Dictionary of Real Estate Appraisal, 5<sup>th</sup> Edition 2010, The Appraisal Institute, Page 78

<sup>2</sup> Office of the Comptroller of the Currency (OCC), 12 CFR Part 34, The Dictionary of Real Estate Appraisal, 5<sup>th</sup> Edition, Page 123 and FIRREA

<sup>3</sup> The Dictionary of Real Estate Appraisal, 5<sup>th</sup> Edition 2010, The Appraisal Institute, Page 12

<sup>4</sup> The Dictionary of Real Estate Appraisal, 5<sup>th</sup> Edition 2010, The Appraisal Institute, Page 30

## SCOPE OF THE APPRAISAL

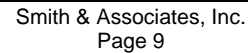
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Per the client's request, we have performed an appraisal and prepared a **Summary Report**. The methodology section of this report outlines the valuation procedures followed.

The specific steps in the appraisal process include the following:

- Research and analyze all of the applicable land sales within the City of Milpitas, or nearby areas with similar characteristics.
- Confirm details of the comparable sales to the greatest extent possible with the participants of the transaction. These include but are not limited to grantor and grantee, sale price, date, terms and conditions, development potential, number of residential units or square feet of commercial development, etc.
- We investigated land sales that reflect residential land uses of low (3-5 DU/AC) to medium (6-15 DU/AC) densities, typical of those outside the two specific plan areas.
- Once the complete sample of sales was identified and verified, the sales were adjusted for the following characteristics; property rights conveyed, financing, conditions of sale (listings), market conditions (time) and physical condition. A market conditions adjustment is important as the market can change over time and older sales may need to be adjusted to reflect upward or downward trends to the current date of the consultation service.
- Physical conditions are important as parcels are in different stages of improvement and need to be adjusted to a similar base condition. We considered a base value assuming a vacant, level site with all street improvements including curbs, gutters, sidewalks, utilities, and street lights, but no development entitlements. All of the sales have been adjusted to this standard.
- Once the sales were adjusted, we then calculated a mathematical average per acre market value.
- Although we are not considering a specific property, this is an appraisal as the main purpose is to provide an opinion of value. Additionally, we have prepared a Summary Report that provides all of the necessary information to fully document the comparable sales and adjustments and explain the process leading to the final Average Per-Acre Determination of Market Value.

Smith & Associates, Inc.  
Page 9



## **REGIONAL ANALYSIS – SANTA CLARA COUNTY**

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Santa Clara County encompasses a total land area of approximately 1,034 square miles and most of the commercial and residential development as well as the county's population reside on the floor of the 225 square mile Santa Clara Valley. Topographical features that generally border Santa Clara County include the San Francisco Bay and its associated tidelands to the north, the Mount Hamilton Range to the east, the Santa Cruz Mountains to the south, and the Cupertino Foothills to the west.

Originally Santa Clara County was an agricultural area. Before 1945 the county consisted of mostly fruit and nut orchards mainly because of the ideal climate and topographical features gave the agricultural crops protection from elements. Following World War II returning GIs and their new families relocated to Santa Clara Valley, as it became an ideal place for living. During the 1950s, 1960s and 1970s, Santa Clara County experienced an unprecedented housing boom. New subdivisions were built for miles, creating an area of suburban sprawl.

Similar growth patterns are still occurring, but the lack of vacant land available for development, as well as the geographical constraints, has created a shortage of new housing. After the financial crash of 2008 and the Great Recession, the Valley is once again experiencing rising home prices and a lack of housing, largely due to the success of social media companies on the Peninsula and West Valley, such as Google, Facebook, and Yahoo.

### **Transportation**

Santa Clara County is well served by an extensive freeway system, major commercial expressways, commercial rail and passenger light rail systems, as well as an International Airport. Interstate 680, 880, and 280 connect with the west and east San Francisco Bay Areas and the rest of the state. US Highway 101 and State Highways 17, 85, 87 and 237 also add additional freeway access to most areas of Santa Clara County. The Lawrence, San Tomas, Capitol, Foothill, Montague and Central Expressways provide cross-valley routes that are superior to surface streets, but are slower than freeways. State Route 85 serves the south valley and results in a complete road system. This addition has been of great benefit to South Valley residents as it links them directly to employment centers in Cupertino, Sunnyvale, Mt. View, and the San Francisco Peninsula. Nevertheless the overall system is taxed by heavy traffic congestion during commute hours.

The Norman Y. Mineta San Jose International Airport is located northwest near the intersection of Interstate 880, US Highway 101, and State Highway 87 (the Guadalupe Expressway), in the northern part of the city. National and International flight availability is considered above average and is expanding. Additional Domestic and International flights are also available from Oakland and San Francisco International Airports, which are within 40 miles of the Evergreen Views (D.R. Horton) site. The Reid Hillview Municipal Airport is located along Capitol Expressway but this is a small domestic airport that caters to local businesses and recreation flyers.

Union Pacific Railroad provides commercial rail service that serves the industrial developments throughout the City of San Jose and Santa Clara Valley. These corridors are mostly located along Monterey Highway to the west. The Valley Transportation Authority (VTA) provides Light Rail and bus service countywide and the light rail system connects with Caltrain at the Diridon (downtown San Jose), Tamien, Castro (downtown Mountain View), and Evelyn stations. The original light rail system operated primarily from downtown San Jose to points north, where

many residents were employed. However, the light rail lines are now expanding in many directions, becoming more of a full service provider every year. All local transportation improvements have been made in an effort to lighten auto traffic, but to date, success has been moderate. Amtrak provides passenger rail service out of San Jose and Santa Clara, and has a commute line to the south valley, Morgan Hill and Gilroy. A future Light Rail Station is planned to be located along Capitol Expressway, but the timing remains unknown due to funding constraints.

## **Population**

Between 1980 and 1990, the County of Santa Clara grew by 202,506 people. This growth represents a 16% increase in population. Similarly, between 1990 and 2000, the County grew by an additional 185,008, which accounts for a 12% change in population.

It is predicted that the County's population will continue to grow, but at a slower rate. Moderate rates of growth in employment and housing development may account for this slow down in population growth. According to the Census Bureau, the County of Santa Clara's population in 2010 was 1,781,642. From January 1, 2012 to January 1, 2013, the County of Santa Clara's population reportedly grew 1.6%, to 1,842,254. A May article in the San Francisco Chronicle stated that the City of San Jose's population and broken the 1,000,000 barrier and Santa Clara County was again the fastest growing county in the state.

## **Employment**

California's unemployment rate decreased to 7.3 percent in September 2014, and nonfarm payroll jobs decreased by 9,800 during the month for a total gain of 1,409,500 jobs since the recovery began in February 2010, according to data released today by the California Employment Development Department (EDD) from two separate surveys. The U.S. unemployment rate also decreased in September to 5.9 percent.

In September 2013, the unemployment rate was 8.8 percent. The unemployment rate is derived from a federal survey of 5,500 California households.

Nonfarm jobs in California totaled 15,530,500 in September, a decrease of 9,800 jobs over the month, according to a survey of businesses that is larger and less variable statistically. The survey of 58,000 California businesses measures jobs in the economy. The year-over-year change, September 2013 to September 2014, shows an increase of 297,000 jobs (up 1.9 percent).

## **Income**

High employment and high skill levels translate into high income. Santa Clara County is one of the most affluent metropolitan markets in the country. According to ABAG, the mean household income as of January 2000 was \$105,300 significantly higher than statewide or national mean incomes. However, the National, State, and Local Economy went into a significant recession in 2008 and mean household income has not rebounded to the levels reported from 1999 to 2001. Countywide Mean household income declined in 2005 about 11.43%, and according to the Census Bureau, the median household income from 2008 to 2012 was \$90,747. As with the population numbers, this does not take into account the strong growth over the past 2 years.

## **Regional Conclusion**



Santa Clara County is known as the high-technology center of the San Francisco Bay Area and the world. It has a diverse economic base with several industrial and office regional employment centers as well as having a large residential base. Physical features attract both businesses and residents.

While the Valley was one of the areas hit hardest at the start of the recession due to layoffs and a collapse in home values, it has again led the recovery and has done so at a pace faster than the rest of the state and nation. This area is still attractive to businesses for its location, transportation options, highly educated population, and access to capital. High tech is once again leading the way, particularly in social media, biotechnology, and alternative fuel research. While not out of control like the previous “bubble”, median home prices in the Bay Area are up significantly in the past year. Inventory and interest rates are having an effect by not letting prices get out of control, a sign that Silicon Valley is still going strong and poised for a healthy growth period.

## **AREA AND NEIGHBORHOOD ANALYSIS**

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The City of Milpitas is located in the northeastern section of Santa Clara County, and it is bounded to the south by the City of San Jose and to the north by the City of Fremont. It is also part of the eastern portion of Silicon Valley. Land uses within the city are relatively diverse with most of the residential development located in the city's northern and eastern areas, while the industrial, research and development, and commercial uses are located primarily in the southern and western areas.

The City is well served by several transportation systems. Highways 680 and 880 run north-south through Milpitas connecting with the East Bay and Oakland to the north, while Highway 237 runs east-west, connecting with Highway 101 and the lower San Francisco Peninsula to the west. Highway 237 connects Highways 680 and 880. Access to and from Milpitas to all parts of the Bay Area, and beyond, is easy and direct by virtue of these three highways passing through the city. Lastly, the City has two Light rail stations that allow residents and employees to connect easily with the high tech and manufacturing companies in located in the City of San Jose, Silicon Valley, and Santa Clara County.

Between I-880 and Highway 680, commercial development is generally oriented along the major thoroughfares of Calaveras Boulevard, North & South Milpitas Drive, Jacklin Road, Montague Expressway, and Main Street. Just west of I-880 are the developing R&D, Office, and older manufacturing facilities north of Montague Expressway and along McCarthy Boulevard and Tasman Drive.

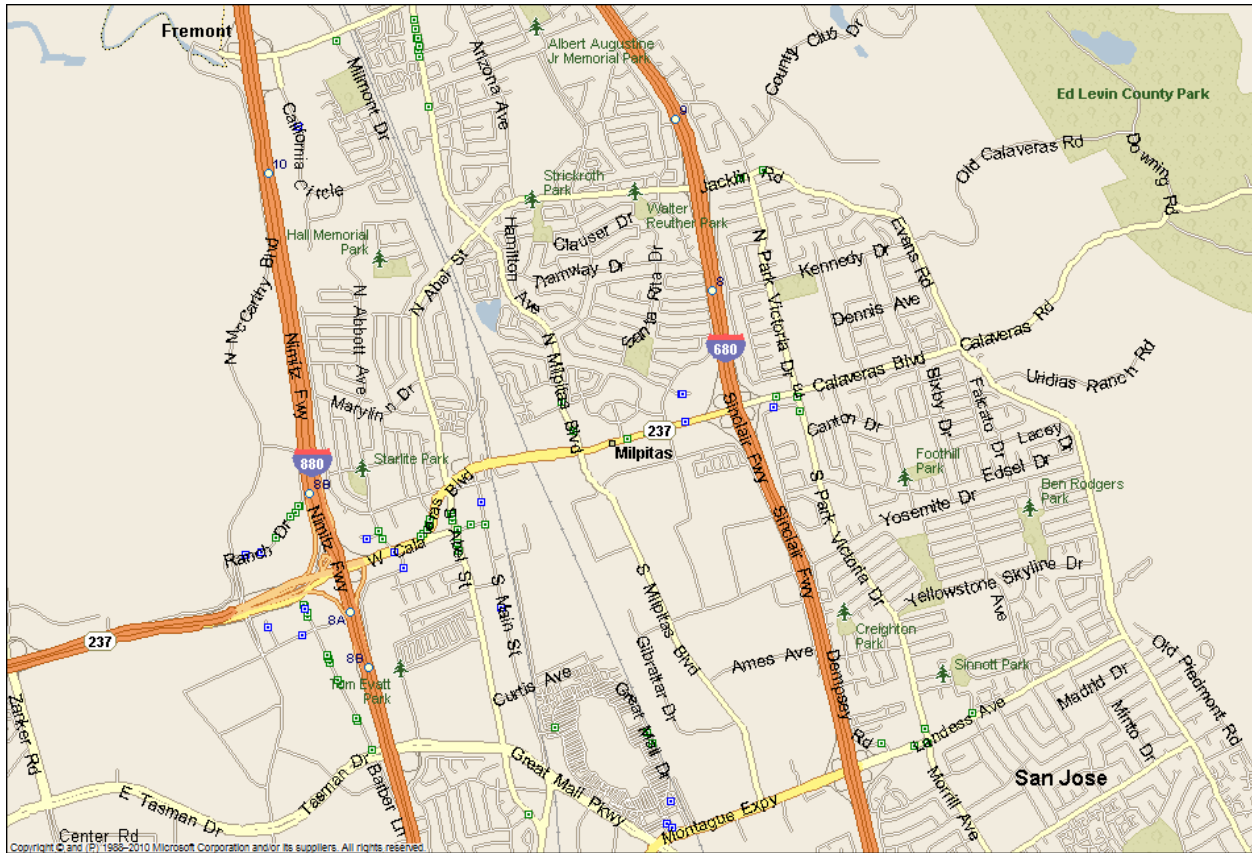
Land uses in Milpitas include commercial, retail, R&D, and industrial to several classifications of residential. These include low density single-family at very low density (less than 1 dwelling unit per acre) to Very High Density Residential with densities that range from 40 dwelling units per acre to as high as 90 dwelling units per acre with a conditional use permit.

Commercial land uses include the Town Center at East Calaveras Blvd. and North Milpitas Blvd. where the City Civic Center is located. Other Commercial uses are General Commercial, Retail Sub-Center, Professional/Administrative Offices, and Highway Service. Industrial land uses consist of Manufacturing and Warehousing, and Industrial Parks. Commercial and Industrial uses are located along the Valley floor with industrial uses centered along the east and west side of Highway 880 corridor as well as along South Milpitas Blvd. Commercial uses are generally found along major traffic arteries such as Main Street, Abel Street and Calaveras Blvd., with the McCarthy Ranch Marketplace at the northwest quadrant of Highways 880 and 237. The Great Mall of Milpitas is along the Montague Expressway.

### **Conclusion**

Although located on the east side of Silicon Valley, Milpitas has become an increasingly desirable location for business, as well as a desirable community in which to live. The high cost of housing and commercial property in the West Valley and lack of available developable land has drawn business and residents to the community. Ease of access to the Bay Area freeway system also helps make this a desirable location.

## CITY MAP



## **NATIONAL AND STATE ECONOMIC CONDITIONS**

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The UCLA Anderson Forecast is one of the most widely watched and often-cited economic outlooks for California and the nation and was unique in predicting both the seriousness of the early-1990s downturn in California and the strength of the state's rebound since 1993. More recently, the Forecast was credited as the first major U.S. economic forecasting group to declare the recession of 2001. Below is their most recent report, published on September 11, 2014.

### **UCLA Anderson Forecast: National Economy Growing; Unemployment Rate Dropping; Defense Spending on the Rise California Recovery Continues at a "Painfully Plodding" Pace**

UCLA Anderson Forecast's third quarterly report of 2014 indicates that the real Gross Domestic Product for the United States will grow at about 3 percent over the next two years, following a decline of 2.1 percent in the first quarter of this year and a rebound of 4.2 percent growth in the second. On an annual basis, GDP growth will rebound a full percentage point in 2015 to 3.1 percent and to 3.4 percent in 2016. Payroll job growth should average 230,000 per month; by the end of 2016 the unemployment rate will drop to 5.3 percent. In California, employment growth is forecast to be 2.4 percent in 2015 and 2.2 percent in 2016, which will drive down the unemployment rate to 5.7 percent by 2016, just 0.3 percent higher than the U.S. rate.

#### **The National Forecast**

Highlights of the September forecast include an expected rise in inflation, as measured by the headline and core consumer price indices. UCLA Anderson Senior Economist David Shulman forecasts inflation at 2 percent or higher over the next two years, driven primarily by rising residential rents and increasing health care costs. The Federal Reserve Board could raise rates by March 2015, in response to declining unemployment and rising inflation. The sectors expected to fuel the nation's economic growth include housing, nonresidential construction and investment in equipment and software.

"Despite the housing recovery being slower than we anticipated, we forecast that housing starts will rise from this year's estimated 1.025 million units to 1.32 million and 1.47 million units in 2015 and 2016, respectively," Shulman writes. "Because of continuing investment in energy production and a revival in commercial construction, nonresidential construction will start to increase rapidly in mid-2015. In 2016, investment in nonresidential construction is forecast to expand at a robust 8.2 percent. Continued strength in equipment and software spending will continue to buoy the economy."

There is a major change from prior forecasts stemming from anticipation that defense spending will increase, rather than decline. Citing the rise of Islamic State of Iraq and the Levant (ISIL) in the Middle East, and the presence of Russian troops in Ukraine, Shulman writes that there will be a "rethinking" of the U.S.'s defense posture. The forecast models in an additional \$24 billion per year in defense spending by 2016.

"For those with a long memory, we would note that the Reagan defense build-up started under President Carter in 1979 after the Iranian Revolution and the Soviet invasion of Afghanistan," Shulman writes.

## **The California Forecast**

In the California forecast for September 2014, UCLA Anderson Senior Economist Jerry Nickelsburg writes, "The California economy is moving forward in an expansion from the depths of the Great Recession. But, even though the number of jobs is now higher than any time in the past, the state remains below its potential in output and employment. That we are entering the sixth year of expansion illustrates just how painfully plodding this recovery process has been."

The current forecast accounts for two countervailing forces that will be affecting the California economy: the U.S. economy is growing stronger, while the world economy is expected to be weaker. The result is a forecast that is only slightly stronger than that released in June.

In the housing sector, Nickelsburg notes that prices continue to rise in response to new household formation. "Construction permits have been increasing and our expectation is that this will continue through the forecast horizon," writes Nickelsburg. New home starts are expected to increase by 5 percent in California and nationwide. Job growth for 2016 is forecasted at 3 percent in California, rising more quickly than growth in the nation.

## **MARKET OVERVIEW**

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We are developing an estimate of residential land values (the most likely placement of park land) outside the Midtown and Transit Area Specific Plan areas of Milpitas, so we looked at both home re-sale values and new home/apartment development. The densities for residential development tend to be lower outside those plan areas, therefore we see more townhome and single-family home development, compared to higher density condos and apartments within the plan areas. First is information on the overall housing industry from DataQuick, then statistics on new home development in Santa Clara County from The Gregory Group.

### **Housing Market – Excerpts from most recent DataQuick report**

#### **Strongest September for Bay Area Home Sales in Five Years; Prices Flat October 14, 2014**

The number of homes sold in the Bay Area last month edged up to its highest level for a September since 2009, the result of some spillover summer activity and sustained demand in a strong regional economy. Prices appear to have flattened out at a level reached this spring, Irvine-based CoreLogic DataQuick reported.

A total of 7,443 new and resale houses and condos sold in the nine-county Bay Area last month. That was down 1.8 percent from 7,578 in August and up 4.2 percent from 7,141 in September last year, according to CoreLogic DataQuick.

A decline in sales from August to September is normal for the season. Last month's sales count was the highest for any September since 7,879 homes were sold in 2009. Sales for the month of September have varied from 5,014 in 2007 to 13,343 in 2003. The average since 1988, when CoreLogic DataQuick's statistics begin, is 8,479.

The median price paid for a home in the nine-county Bay Area was \$604,000 in September. That was down 0.5 percent from \$607,000 in August, and up 14.0 percent

from \$530,000 in September last year. The median sale price lurched above \$600,000 this April, when it was \$610,000, and then reached a 2014 high of \$618,000 in June. Since then the median has declined slightly on a month-to-month basis.

The Bay Area's median sale price peaked at \$665,000 in June and July 2007, then dropped to a low of \$290,000 in March 2009.

"Some analysts are re-calculating what they consider to be normal sales levels, taking out the 'loans-gone-wild' years of over-available credit. And if you do that, current sales are right in the normal range. We still have issues today, though. The mortgage market is still dysfunctional. There are categories of buying and selling that are still inactive, and nobody really has any idea just how much pent-up demand there is out there," said John Karevoll, CoreLogic DataQuick analyst.

|                  | Sales Volume  |               |               | Median Price     |                  |               |
|------------------|---------------|---------------|---------------|------------------|------------------|---------------|
| <b>All homes</b> | <b>Sep-13</b> | <b>Sep-14</b> | <b>% Chng</b> | <b>Sep-13</b>    | <b>Sep-14</b>    | <b>% Chng</b> |
| Alameda          | 1,468         | 1,613         | 9.9%          | \$510,500        | \$560,000        | 9.7%          |
| Contra Costa     | 1,385         | 1,460         | 5.4%          | \$409,000        | \$450,000        | 10.0%         |
| Marin            | 300           | 270           | -10.0%        | \$750,000        | \$880,000        | 17.3%         |
| Napa             | 131           | 108           | -17.6%        | \$431,500        | \$500,000        | 15.9%         |
| Santa Clara      | 1,753         | 1,732         | -1.2%         | \$640,000        | \$694,500        | 8.5%          |
| San Francisco    | 511           | 510           | -0.2%         | \$820,000        | \$938,000        | 14.4%         |
| San Mateo        | 561           | 656           | 16.9%         | \$680,000        | \$790,000        | 16.2%         |
| Solano           | 495           | 509           | 2.8%          | \$273,500        | \$305,000        | 11.5%         |
| Sonoma           | 537           | 585           | 8.9%          | \$409,500        | \$458,250        | 11.9%         |
| <b>Bay Area</b>  | <b>7,141</b>  | <b>7,443</b>  | <b>4.2%</b>   | <b>\$530,000</b> | <b>\$604,000</b> | <b>14.0%</b>  |

Source: DataQuick, [www.DQNews.com](http://www.DQNews.com)

## New Home Sales

The following chart for Santa Clara County is from The Gregory Group, which tracks new home development and sales. While the rate of increase has slowed some, median home prices have continued to rise. We have also included the totals for San Mateo County to show the upward pressure that that area puts on Silicon Valley.

| <b>County/Community</b><br><b>(Average Price/<br/>Quarter Sales)</b> | <b>4th Qtr</b>   | <b>1st Qtr<br/>2013</b> | <b>2nd Qtr</b>    | <b>3rd Qtr</b>    | <b>4th Qtr</b>   | <b>1st Qtr<br/>2014</b> | <b>2nd Qtr</b>     | <b>3rd Qtr</b>    | <b>Quarter<br/>% Change</b> | <b>Year Ago<br/>% Change</b> |
|--|------------------|-------------------------|-------------------|-------------------|------------------|-------------------------|--------------------|-------------------|-----------------------------|------------------------------|
| Santa Clara County   | \$677,344<br>200 | \$742,666<br>270        | \$767,580<br>203  | \$816,911<br>147  | \$888,335<br>211 | \$769,084<br>427        | \$803,307<br>473   | \$934,540<br>461  | 16.3%                       | 14.4%                        |
| <i>Gilroy</i>  | \$613,766<br>24  | \$674,477<br>8          | \$712,866<br>11   | \$724,490<br>2    | \$728,996<br>12  | \$647,781<br>27         | \$654,649<br>100   | \$667,488<br>52   | -2.5%                       | 213.6%                       |
| <i>Milpitas</i>  | --<br>--         | --<br>--                | --<br>--          | --<br>--          | \$708,783<br>48  | \$704,053<br>161        | \$744,101<br>183   | \$746,737<br>120  | 2.0%                        | -7.9%                        |
| <i>Morgan Hill</i>   | \$718,315<br>12  | \$727,982<br>32         | \$727,766<br>60   | \$796,516<br>29   | \$819,729<br>78  | \$785,871<br>85         | \$795,063<br>37    | \$795,576<br>75   | -48.0%                      | 2500.0%                      |
| <i>San Jose</i>  | \$587,752<br>147 | \$701,913<br>107        | \$756,050<br>83   | \$798,505<br>65   | \$760,805<br>50  | \$786,673<br>119        | \$850,887<br>144   | \$901,972<br>156  | 0.4%                        | --                           |
| <i>Sunnyvale</i>   | \$924,123<br>15  | \$905,271<br>53         | \$1,293,831<br>13 | \$1,250,426<br>18 | \$926,250<br>11  | \$926,250<br>25         | \$926,250<br>2     | \$1,206,491<br>33 | 0.1%                        | -0.1%                        |
| San Mateo County   | \$801,270<br>22  | \$757,402<br>70         | \$861,736<br>44   | \$851,420<br>60   | \$854,350<br>31  | \$1,063,458<br>75       | \$1,044,620<br>184 | \$1,067,261<br>55 | 102.7%                      | 158.6%                       |
|  |                  |                         |                   |                   |                  |                         |                    |                   | 6.0%                        | 13.0%                        |
|  |                  |                         |                   |                   |                  |                         |                    |                   | 8.3%                        | 140.0%                       |
|  |                  |                         |                   |                   |                  |                         |                    |                   | 30.3%                       | -3.5%                        |
|  |                  |                         |                   |                   |                  |                         |                    |                   | 1550.0%                     | 83.3%                        |
|  |                  |                         |                   |                   |                  |                         |                    |                   | 2.2%                        | 25.4%                        |
|  |                  |                         |                   |                   |                  |                         |                    |                   | -70.1%                      | -8.3%                        |

While it appears that Milpitas home prices have gone up about 5% over the past year, there is another factor that must be considered in our analysis of demand for land. There are already a number of approved projects in various stages of construction that will bring about 1,300 low-density units to market. These are all outside the Midtown and Transit Area Specific Plan areas and in addition to the nearly 4,300 units approved in those areas. One broker we spoke with who specializes in land acquisition told us that “the majority of lower density land has been purchased. Mainly higher density land remains and Milpitas is not yet a proven apartment/condo market so there will be few if any high density land purchases.”

On the next page is a graphic summary from the Milpitas Planning Department showing all the projects that have already been approved. Many have started construction and some are near completion. Seven of the projects are outside the Transit Area or Midtown Specific Plan Areas. Those project names are circled in yellow on this graphic and they account for a total of 1,309 dwelling units coming to market. Project 1, Landmark Tower, is technically outside the Specific Plan Areas. But it is directly across the freeway from them and is more typical of those super high density projects, at 125 units/acre. Therefore, we included that sale in the appraisal for the Specific Plan Areas.

## **CONCLUSIONS**

While home prices continue to rise and the economy continues to gain ground, we have not seen much in the way of new Milpitas land transactions in 2014. The main reason is the large number of already approved projects that are coming to market and need to be absorbed first. There was a flurry of land acquisition activity in 2011-2013. But with those projects now approved and under construction, the land market appears to be taking a breather.





## CITY OF MILPITAS

### APPROVED PROJECTS

For Project and Owner Information: [http://www.ci.milpitas.ca.gov/government/planning/proj\\_approved.asp](http://www.ci.milpitas.ca.gov/government/planning/proj_approved.asp)

2008-2013

#### 1. LANDMARK TOWER



375 dwelling units and 148,805 square feet of commercial space in 18 stories on three acres (125 dwellings per acre). APN: 86-01-034  
Developer: Cong Nguyen (408) 748-1847

#### 2. FAIRFIELD MURPHY RANCH



374 apartment units (49.3 dwellings per acre).  
APNs: 86-01-041.  
Developer: Fairfield Residential (858) 457-2123

#### 3. COYOTE CREEK



285 townhomes (211 dwellings per acre).  
APNs: 86-01-042  
Developer: Tim Cotton (925) 543-5555

#### 4. HARMONY



276 townhomes and condominiums on a 12.33 acres. (APNs: 86-41-019,020,021,022)  
Developer: D.R. Horton (925) 225-7400

#### 5. APEX



The project includes 366 dwelling units on a 6 acres. (57 units per acre) APN: 86-12-016  
Developer: Lyon Realty Advisors Inc. (949) 838-1280

#### 6. SHEA PROPERTIES



204 dwelling units on 2.72 acres (74 du/ac)  
APN: 086-16-100  
Developer: She Properties, (949) 389-7286

#### 7. SUNDROP



83 dwelling units on 4.98 acres  
(16.6 dwellings per acre).  
APNs: 86-29-050, -049  
Developer: Jake Lavin (408) 345-1767

#### 8. CITATION



732 dwelling units on 16 acres (45 dwellings per acre). APN: 86-32-037  
Developer: Ken Perry (408) 985-6000

#### 9. MILPITAS STATION



303 dwelling units on 12.1 acres (25 dwellings per acre). APNs: 86-32-039, -040, -038, -033, -034  
Developer: Patricia Broun RCC (949) 553-0627

#### 10. CAPITOL TOWERS



12 story towers with 460 dwelling units (82 units/acre) on 5.6 acres (APN: 086-37-027)  
Developer: Community Housing Development, Inc. (408) 480-2942

#### 11. BELCOURT



80 single family dwellings on 9.65 acres (8.2 dwellings per acre). APN: 086-29-061, 062, 075, 076.  
Developer: Kevin Pahlton (925) 997-3944

#### 12. INTEGRAL PROPERTIES



District 1: North three parcels near Great Mall Parkway, includes 954 dwellings in four mixed use buildings and includes 87,023 square feet of commercial space.  
Developer: Integral Communities, (925) 984-7137  
District 2: South four parcels, includes 200 dwellings.  
Developer: Taylor Morrison (408) 628-4280  
Entire project site is 23 acres (50.1 dwellings per acre) (APNs: 86-33-092, -101, -093, -099, -094, -095, -098)

#### 13. TRUMARK HOMES



134 dwelling units on a 9.2 gross acres.  
APNs: 86-36-043  
Developer: Trumark Homes (925) 309-2503

#### 14. LYON MONTAGUE



451 dwelling units on 7.98 acres (56 units/acre)  
APNs: 86-37-004, 020, 021  
Developer: Lyon Communities (949) 838-1244

#### 15. ORCHID RESIDENTIAL



80 dwelling units on 11.3 acres.  
APN: 86-28-041, 86-38-003  
Developer: D.R. Horton (925) 225-7400

#### 16. LIVEWORK RESIDENTIAL



32 Single Family Homes with live-work units on 2.7 acres. APNs: 86-39-001, 002.  
Developer: TPI Point Homes (925) 804-2230

#### 17. WARMINGTON



206 units on 12.51 acres. (17.8 dwellings per acre)  
APNs: 86-36-003, 004, 005, 006  
Developer: Warmington Homes (925) 866-6700



## **APPRAISAL METHODOLOGY – SALES COMPARISON APPROACH**

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The most common way of estimating land value is the Sales Comparison Approach in which recent sales or offerings of vacant land are gathered and analyzed. Typically, the values indicated by the comparable transactions are reduced to a unit of comparison such as sales price per square foot of land area, price per buildable unit, or price per square foot of developable building area. We should point out that many of these “land” sales have existing buildings on them that must be torn down. Because we are interested in the base land value we must include these demolition costs, since they are part of the cost to the buyer to get vacant land.

The land sales and listings developed for this assignment are displayed on the following **Comparable Land Sales Summary Tables**. Details and comments with respect to each sale are provided in the table, while discussions on adjustments to the unit of comparison are discussed in the following paragraphs. We have also included **Land Sales Adjustment Tables**.

The sales and listings are adjusted for property rights conveyed, financing, conditions of sale, market conditions (time), and physical factors, where necessary. Adjustments for location were not necessary as all sales are in the City of Milpitas. We did adjust for density, since we included some of the Midtown/Transit Area sales for comparison. The following narrative discussion will explain the adjustments for each comparable.

### **Land Sales Discussion**

The following tables identify several sales that we believe are comparable for this appraisal. We added a new sale from the SPA that is a lower density, but we have not added any new comparable sales outside the SPA. There was one 2014 sale in the California Circle Project area that had too many qualifiers to list as a comparable, but we will discuss it at the end as the buyer described it to us.

The appraisal assignment is to render an opinion of the average price for a hypothetical 1-acre parcel of land with the potential of being developed as a park. It is residential use that triggers the need for parks and the desire is to have the parks within or adjacent to new residential development. Therefore, we considered only land sales intended for residential use.

As stated at the beginning of this section, we are estimating the value of vacant land. Therefore, an estimate of demolition costs has been included with each sale that has site improvements, to get the true price paid for the land only.

| COMPARABLE RESIDENTIAL LAND SALES    |   |   |  |                  |  |   |  |
|--------------------------------------|---|---|--|------------------|--|---|--|
|                                      | ADDRESS<br>APN  | BUYER   | SALE<br>DATE                             | LOT SIZE<br>S.F. | PRICE<br>TOTAL   | INTENDED<br>USE                           | COMMENTS   |
|                                      |   | SELLER  | DOC #                                    | ACRES            | PER SF   | ZONING                                    |  |
| OUTSIDE MIDTOWN / TRANSIT AREA SALES |   |   |  |                  |  |   |  |
| 1                                    | 31 S. Milpitas Blvd.<br>Milpitas<br>086-28-041 & 086-39-003               | DR Horton<br>Limar Realty Corp 2 (041)<br>Topaz RE Investors LLC (003)          | Apr-13<br>22182994<br>22182993           | 495,277<br>11.37 | \$37,680,000<br>\$1,000,000<br>\$38,680,000<br>\$78.10 | 80 SFR<br>7.08 DU/Ac<br>TC-PUD 19         | Approved Tentative Map<br>\$1,000,000 for demo of<br>2 industrial buildings                                  |
| 2                                    | 375 Los Coches St.<br>Milpitas<br>086-39-002 & 001                        | San Ramon Land LLC<br>Less Properties LLC<br>Genesis United Methodist<br>Church | May-13<br>22233879<br>Dec-12<br>22006634 | 115,869<br>2.66  | \$5,650,000<br>\$125,000<br>\$5,775,000<br>\$49.84     | 33 SFR<br>12.41 DU/Ac<br>TC-PUD 19        | Subject to Entitlements<br>\$125,000 for demo of<br>industrial building                                      |
| 3                                    | 245-373 Sinclair Frontage Rd.<br>Milpitas<br>086-29-061,062,075,076 & 042 | Brookfield Homes<br>Mission Peak Homes LLC                                      | Jun-12<br>21728782                       | 420,791<br>9.66  | \$19,350,000<br>\$700,000<br>\$20,050,000<br>\$47.65   | 80 SFR<br>8.2 DU/Ac<br>PD2007-10          | Subject to Entitlements<br>\$700,000 for demo of<br>4 industrial buildings                                   |
| 4                                    | 905-980 Los Coches St.<br>Milpitas<br><br>086-29-049 & 050                | Robson Homes<br>Green Valley Corp.  | Aug-11<br>21280444                       | 230,433<br>5.29  | \$11,900,000<br>\$300,000<br>\$12,200,000<br>\$52.94   | 83 SFR<br>16.6 DU/Ac<br>TC-PUD 19         | Subject to Entitlements<br>\$300,000 for demo of<br>2 buildings  |
| 5                                    | Murphy Ranch Rd.<br>Milpitas<br>086-01-046                                | ORA Murphy Ranch 285 LLC<br>Fairview Murphy Rd. LLC                             | Jun-11<br>21196423                       | 567,587<br>13.03 | \$24,811,000<br>\$43.71                                | 285 TH<br>22 DU/Ac<br>R-4 PD              | Subject to Entitlements<br>1/2 mile to light rail  |
| MIDTOWN / TRANSIT AREA SALES         |   |   |  |                  |  |   |  |
| 6                                    | 573-625 Trade Zone<br>Milpitas<br>086-36-003, 004, 005 & 006              | Toll Brothers<br>Warmington Residential   | Aug-13<br>22337612                       | 544,936<br>12.51 | \$46,000,000<br>\$60,000<br>\$46,060,000<br>\$84.52    | 206 Units<br>22.91 DU/Ac net<br>R-3 - TOD | Fully Entitled<br>Small auto salvage<br>buildings to demolish  |
| 7                                    | 1338 S. Main St<br>Milpitas<br>086-23-004 & 016                           | Kumar/Sharma<br>WU Cherry & K 1990 Trust  | Sep-12<br>21858173                       | 18,998<br>0.44   | \$775,000<br>\$40.79                                   | Hold<br>High Density                      | Potential residential<br>development but more<br>likely commercial/retail                                    |
| 8                                    | 1625-1845 McCandless<br>Milpitas<br>086-41-019,020,021 & 022              | DR Horton<br>Mission West Properties  | Aug-12<br>21536587                       | 534,481<br>12.27 | \$22,600,400<br>\$1,300,000<br>\$23,900,400<br>\$44.72 | 276 Units<br>22.5 DU/Ac<br>R-3            | Subject to Entitlements<br>\$1,300,000 for demo of<br>three industrial buildings<br>< 1/2 mile to light rail |
| 9                                    | Trade Zone Blvd. & Montague<br>Milpitas<br>086-36-043                     | Trumark Companies<br>Mission West Properties                                    | Jul-12<br>21741832                       | 361,548<br>8.30  | \$18,500,000<br>\$1,043,000<br>\$19,543,000<br>\$54.05 | 134 Units<br>16 DU/Ac<br>R-3              | Subject to Entitlements<br>\$1,043,000 for demo of<br>three industrial buildings<br>< 1/2 mile to light rail |
| 10                                   | 1435-1620 McCandless Dr.<br>Milpitas<br>086-33-094, 095, 098, 099         | Taylor Morrison<br>Mission West Properites<br>LP V                              | Apr-12<br>21646463                       | 420,790<br>9.66  | \$19,350,000<br>\$1,000,000<br>\$20,350,000<br>\$48.36 | 200 Townhomes<br>20.7 DU/Ac<br>R-3/PD     | \$1,000,000 for demo of<br>4 industrial buildings<br>1/3 mile to light rail<br>Subject to Entitlements       |

### Adjustments to the Comparables

All of the pertinent information for the comparables is presented in the Summary Tables and only adjustments to the sales will be discussed here. Since we are providing an opinion of the Average Market Value of a hypothetical one-acre parcel of land for the City of Milpitas and not a specific property, the overall adjustments are minor.

### *Market Conditions*

Home prices are still on the rise, though sales volume is slowing down and absorption is a question in the coming year. With the economy still growing, we added only a modest increase to our numbers from last year's report with regard to sales prior to 2014.

### *Location*

As stated earlier, all are Milpitas sales and need no adjustment. We considered land sales in nearby parts of Fremont and San Jose but other factors made them not comparable.

### *Density*

Most new residential development outside the Midtown and Transit Area Specific Plans is in the medium density range of 6-15 DU/Ac. We also used sales from within those plan areas that were close to that density range.

### *Entitlements*

All of the sales except Sale 1 and 6 went into escrow “subject to entitlements.” This means that during the escrow period, the buyer initiates and pays for all the steps to get an entitled project. If their original expectations cannot be executed, they have the ability to walk away from the deal with only the loss of a deposit in most cases. But this seems to be the typical way that un-entitled land is purchased – it will be entitled by the time escrow closes, but the buyer pays for the entitlement process on top of the price they paid for the un-entitled land. Sale 1 already had an approved tentative map when DR Horton purchased the land (paid for by original developer Braddock & Logan). Sale 6 was assembled and entitled by Warmington Homes before selling to Toll Brothers. So those sales warrant a downward adjustment for superior entitlements. The approval process from an industrial use to a mapped residential development can be significant, so these are larger adjustments.

### **Conclusion**

While we have attempted to adjust the sales to the hypothetical subject property for the differences identified in the adjustment grid, it must be remembered that the adjustment process is not an exact science. It reflects the appraiser’s judgment regarding these differences and their magnitude relative to the overall sale price. The table below summarizes these adjustments and then averages the values by various groupings – both outside and inside the specific plan areas, and then Milpitas as a whole. The groupings are quite close because we included only specific plan sales at the low end of the high density range (i.e. near the high end of the medium density range). Sales 1 and 6 are given less weight because 1 had a tentative map and 6 was fully entitled at the time of sale. Sale 7, the lowest at \$40.79/s.f. unadjusted, is given less weight because the location makes it more likely that a retail use will be built, rather than residential.

### **Additional Sale**

As mentioned earlier, there was one sale for land in the low/medium density range (6-15 DU/Ac) toward the north end of Milpitas. This is in the California Circle Project area, which is currently an industrial park. In February 2014, Trumark Companies closed on 8.66 acres of land with two vacant R&D buildings totaling 106,657 s.f. The plan is to demolish the existing buildings and construct 84 single-family detached homes. The purchase price was \$13,000,000, or \$34.46/s.f. But the buyer told us “the property was tied up in 2011, so a completely different market. We also entered into the purchase agreement on the basis of the existing use. It is not a comp for a residential use from both a timing and use perspective. We invested a tremendous amount of money and time to secure entitlements.” He estimates the land today would be worth in the “mid \$20’s million range on a residual, entitled basis.” This would be about \$66.27/s.f. It would be more fully entitled than our benchmark property type, but provides some support for our conclusion of un-entitled residential land in the low \$50/s.f. range.

| COMPARABLE LAND SALES - RESIDENTIAL |                               |         |         |         |         |                              |         |         |         |         |
|-------------------------------------|-------------------------------|---------|---------|---------|---------|------------------------------|---------|---------|---------|---------|
| ELEMENT OF COMPARISON               | OUTSIDE MIDTOWN/TRANSIT AREAS |         |         |         |         | INSIDE MIDTOWN/TRANSIT AREAS |         |         |         |         |
|                                     | SALE 1                        | SALE 2  | SALE 3  | SALE 4  | SALE 5  | SALE 6                       | SALE 7  | SALE 8  | SALE 9  | SALE 10 |
| DATE OF SALE                        | Apr-13                        | May-13  | Jun-12  | Aug-11  | Jun-11  | Aug-13                       | Sep-12  | Aug-12  | Jul-12  | Apr-12  |
| BASE PRICE PER SF LAND              | \$78.10                       | \$49.84 | \$47.65 | \$52.94 | \$43.71 | \$84.52                      | \$40.79 | \$44.72 | \$54.05 | \$48.36 |
| PROPERTY RIGHTS CONVEYED            | 0.0%                          | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%                         | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| ADJ. PRICE                          | \$78.10                       | \$49.84 | \$47.65 | \$52.94 | \$43.71 | \$84.52                      | \$40.79 | \$44.72 | \$54.05 | \$48.36 |
| FINANCING TERMS                     | 0.0%                          | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%                         | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| ADJ. PRICE                          | \$78.10                       | \$49.84 | \$47.65 | \$52.94 | \$43.71 | \$84.52                      | \$40.79 | \$44.72 | \$54.05 | \$48.36 |
| CONDITIONS OF SALE                  | 0.0%                          | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%                         | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| ADJ. PRICE                          | \$78.10                       | \$49.84 | \$47.65 | \$52.94 | \$43.71 | \$84.52                      | \$40.79 | \$44.72 | \$54.05 | \$48.36 |
| MARKET CONDITIONS (TIME)            | 5.0%                          | 5.0%    | 10.0%   | 10.0%   | 10.0%   | 5.0%                         | 10.0%   | 10.0%   | 10.0%   | 10.0%   |
| ADJ. PRICE                          | \$82.00                       | \$52.33 | \$52.41 | \$58.24 | \$48.08 | \$88.75                      | \$44.87 | \$49.19 | \$59.46 | \$53.20 |
| LOCATION                            | 0.0%                          | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%                         | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| PHYSICAL CHARACTERISTICS            |                               |         |         |         |         |                              |         |         |         |         |
| DENSITY                             | 0.0%                          | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%                         | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| ENTITLEMENTS                        | -30.0%                        | 0.0%    | 0.0%    | 0.0%    | 0.0%    | -40.0%                       | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| UTILITY/USE                         | 0.0%                          | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%                         | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| TOTAL ADJUSTMENT                    | -30.0%                        | 0.0%    | 0.0%    | 0.0%    | 0.0%    | -40.0%                       | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| INDICATED PRICE PER SF LAND         | \$57.40                       | \$52.33 | \$52.41 | \$58.24 | \$48.08 | \$53.25                      | \$44.87 | \$49.19 | \$59.46 | \$53.20 |
|                                     | \$53.69                       |         |         |         |         | \$51.99                      |         |         |         |         |
|                                     | \$52.84                       |         |         |         |         |                              |         |         |         |         |

## FINAL VALUE RECONCILIATION

With respect to reconciliation, there is, in this case, only one applicable approach to value, the Sales Comparison Approach. As a result, this is the sole basis for the value conclusion. The Sales Comparison Approach to value is believed to be the most relevant indicator of value, as it is the most likely method of valuation for vacant land.

All sales are fairly close based on location, timing, and density. After only a couple of necessary adjustments, we see a consistent range that makes the average of all sales appropriate given that the in-lieu park fee applies across all of Milpitas outside of the Midtown and Transit Area Specific Plan areas.

Based on our investigation and analysis, it is our opinion that the Average Market Value of the Fee Simple Estate in a potential park site location in the City of Milpitas, outside the Midtown and Transit Area Specific Plan areas, subject to the attached General and Extraordinary Assumptions and Limiting Conditions, and any Hypothetical Conditions, as of December 1, 2014, is:

**\$53.00 per square foot**  
or  
**\$2,308,680 per acre**

# William O. Hurd, MAI

California General Certified Real Estate Appraiser No. AG034899

---

## SUMMARY

After 20+ years in the technology industry, Mr. Hurd has been a professional real estate appraiser and consultant in Northern California since 2004. He is a designated member of the Appraisal Institute, with appraisal experience in the entire San Francisco Bay Area and Sacramento. Mr. Hurd has lived in the Bay Area for over 30 years.

Property types valued and analyzed include the following:

- \* *Commercial (Office, Medical, Retail, Restaurant)*
- \* *Industrial (Warehouse, Light Industry, Production)*
- \* *Vacant Land (Commercial, Industrial, Mixed-Use)*
- \* *Specialty (Eminent Domain, Right-of-Way, Arbitration)*
- \* *Subdivision (Lots, SFR, Condominiums)*

## WORK HISTORY

|                |                        |                          |
|----------------|------------------------|--------------------------|
| 2004 - Present | Commercial Appraiser   | Smith & Associates, Inc. |
| 2003 - 2004    | Owner                  | Twin Oak Properties      |
| 2001 - 2003    | V.P. Bus. Development  | Imperial Technology      |
| 1999 - 2001    | Dir. Field Services    | Provato                  |
| 1988 - 1998    | Dir. Sales Engineering | Sybase                   |
| 1980 - 1988    | Technical Sales        | AT&T                     |

## ASSIGNMENTS OF INTEREST

- Litigation support for both public agencies and private land owners
- Prepared preliminary budgetary valuation studies for several hundred properties for the proposed BART extension from Fremont to San Jose and Santa Clara
- Appraised land for several redevelopment projects for the Sacramento Housing and Redevelopment Agency
- Completed rent surveys and full appraisals for both regional and international airports
- Prepared Public Land Acquisition Value appraisal for City of Elk Grove
- Appraised over 20 properties and provide ongoing support for Capitol Expressway Light Rail Project in San Jose

## EDUCATION

*Bachelor of Science, Psychology                      University of Dayton, Dayton, Ohio*

*Anthony Schools Courses: Basic Real Estate Appraisal; Legal Considerations in Appraisal; Math and Regulations for Appraisers; Uniform Standards of Professional Appraisal Practice*

*Appraisal Institute Courses: Advanced Income Capitalization; Subdivision Valuation; Advanced Highest and Best Use; Narrative Report Writing; Advanced Sales Comparison & Cost Approaches; Report Writing & Valuation Analysis; Advanced Applications; Uniform Appraisal Standards for Federal Land Acquisitions (Yellow Book); Wetlands, Waterways, and Unusual Land Valuation Issues; Condemnation Appraising: Principals and Applications*

## AFFILIATIONS

State of California Certified General Real Estate Appraiser, No. AG034899  
Member of the Appraisal Institute, MAI No. 13343

# **Terry S. Larson, MAI - Partner**

**California Certified General Real Estate Appraiser No. AG007041**

---

## **QUALIFICATIONS**

Terry Larson has been a professional real estate appraiser and consultant in Northern California since 1981. He concentrates his work in the San Francisco Bay Area and Sacramento Regions, but has also performed national assignments in over twenty states.

Terry began his career with American Appraisal Associates, the largest full service valuation firm in the world, providing valuation services for real estate, personal property, and intangible business assets. As manager of the Northern California Real Estate Valuation Group, his staff and territory covered California and assignments across the country.

Upon joining Smith & Associates in 1997, Terry expanded the firm's territory into Santa Clara, San Mateo, San Francisco and Marin Counties and built a group of appraisers that emphasize litigation support, eminent domain, partial interest valuations and special purpose properties, including airport appraisals. With over \$2 billion in annual valuations, Smith & Associates has three offices to serve client needs; Danville in the East Bay, San Mateo in Silicon Valley and Folsom in the Sacramento Region.

Terry regularly provides litigation support services for property analysis and valuation, deposition and expert witness testimony, arbitration & mediation services in disputes regarding real estate values and fair rental rates, and related matters.

## **CLIENTS**

Banks and other lenders, developers, attorneys, private property owners, government agencies including cities and counties, the State of California, and the Federal Government. For a client list see our web page at [www.SmithAssociatesInc.com](http://www.SmithAssociatesInc.com).

## **EXPERT WITNESS TESTIMONY**

Testified in dozens of cases including eminent domain representing agencies and private property owners, fire damage, diminution in value, contract fraud, land slide and breach of fiduciary responsibilities in real estate transactions.

Qualified Expert Witness in Superior Court for Santa Clara, Contra Costa, Marin and Sacramento Counties. Testified at San Mateo County Tax Board regarding the Redwood Shores Special Assessment District with an estimated value of \$1 billion. Testified in Santa Clara County Criminal Court as a percipient witness in a real estate fraud case.

## **SPEAKING ENGAGEMENTS**

Southwest Chapter of the American Association of Airport Executives  
Appraisals and Lease Negotiations, January 2011

Santa Clara County Brokers Association  
Role of the Real Estate Appraiser, June 2008

Appraisal Institute Spring Litigation Conference  
Subsurface Easements, May 2013

# **Terry S. Larson, MAI - Partner**

**Page 2**

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## **PROPERTY TYPES APPRAISED**

|             |   |
|-------------|---|
| Commercial  | Retail, Office, Apartments, Hotels, & Restaurants.  |
| Industrial  | Warehouse, Industrial, R&D, Mini-Storage, Manufacturing Plants, Truck Facilities, Cross Docks, & Corporate Campuses.  |
| Vacant Land | Industrial, Commercial, Agricultural, Residential & Mitigation.   |
| Specialty   | Golf Courses, Mixed-Use Projects, Food Processing, Jet Hangars, Fixed Base Operations, Sr. Housing, RV Parks, Right-of-Way, Easements, Detrimental Conditions, Partial Interests, Eminent Domain, Residential Subdivisions, Arbitration, Mediation & Appraisal Reviews. |

## **WORK HISTORY**

|                |                    |  |
|----------------|--------------------|--|
| 1997 – Present | Partner            | Smith & Associates, Inc.                   |
| 1996 - 1997    | Commercial Realtor | Cornish & Carey, Investment Services Group |
| 1988 - 1996    | Senior Appraiser   | Hulberg & Associates, Inc.                 |
| 1981 - 1988    | Appraisal Manager  | American Appraisal Associates, Inc.        |

## **EDUCATION**

Bachelor of Science, School of Business Finance, University of Oregon, 1980

### Appraisal Institute Courses:

Real Estate Appraisal Principles; Basic Valuation Procedures; Capitalization Theory and Techniques; Standards of Professional Practice; Case Studies in Real Estate Valuation; Valuation Analysis and Report Writing; Uniform Standards of Professional Appraisal Practice (USPAP); Case Studies in California Eminent Domain; Federal and State Laws and Regulations; The Appraisers Workfile; Appraisals for Estate Tax Purposes; Valuations of Partial Interests; Fractional Interest and Business; California's Condemnation Process; Appraisal of Nursing Facilities; Right of Way Acquisitions; Uniform Appraisal Standards for Federal Land Acquisitions (Yellow Book).

### International Right of Way Association Courses:

Appraisal of Partial Acquisitions; Eminent Domain Law, Basics for Right of Way; Issues in Eminent Domain Valuation; Telecommunications and Rights of Way.

## **PROFESSIONAL AFFILIATIONS**

State of California Certified General Real Estate Appraiser, License No. AG007041  
Member of the Appraisal Institute, MAI No. 11046  
Member of the International Right of Way Association, Member No. 2508

**APPRAISAL FOR**  
**In-Lieu Park Fees**  
**Midtown and Transit Area Specific Plans**  
**City of Milpitas, California**

**File Number: T143831**

**PREPARED FOR:**

**Mr. Steven G. McHarris**  
**Planning & Neighborhood Services Director**  
**City of Milpitas**  
**455 E. Calaveras Blvd.**  
**Milpitas, CA 95035**

**PREPARED BY:**

**William O. Hurd, MAI**  
**AG034899**

**Terry S. Larson, MAI**  
**AG007041**

**SMITH & ASSOCIATES, INC.**  
**140 Town and Country Drive, Suite F**  
**Danville, California 94526**  
**Phone (925) 855-4950**  
**Fax (925) 855-4951**





## Real Estate Appraisal and Consulting

### Partners

Dennis L. Smith, MAI

Terry S. Larson, MAI

John E. Carrothers, MAI

December 11, 2014

### Appraisers

Paul M. Urvinika, MAI

Lisa G. Wright, MAI

William O. Hurd, MAI

William C. Schnitzer, ASA

Robin Schwedhelm, MAI

Jacquelyn Lawrence

Thomas Tucker

Gregory Hansen

Doug Hogendorn

Gary Larsen

Matt Carriere

Mark Bacanskas

Oliver Gibbons

Lisa Federico

Chris Howel

Brian Kennedy

Jake Johnson

Tom Venuti

Gary Beckman

Mike Dixon

Mr. Steven G. McHarris  
Planning & Neighborhood Services Director  
City of Milpitas  
455 E. Calaveras Blvd.  
Milpitas, CA 95035

RE: Appraisal for In-Lieu Park Fees in Midtown and Transit Area Specific  
Plan Areas, City of Milpitas, California

Dear Mr. McHarris:

At your request, we have performed an appraisal for In-Lieu Park Fees. The purpose of the appraisal is to provide an opinion of the Average Market Value of a hypothetical one-acre parcel of land in the City of Milpitas Midtown and Transit Area Specific Plan areas with the potential of being developed with a park. This report does not consider any individual property, but rather looks at the Average Price per Acre throughout the specific plan areas, with residential zoning. The property rights considered are those of the Fee Simple Estate. The function of the report is for use by the City of Milpitas to assist in setting in-lieu park fees to be charged to developers in the specific plan areas.

The client is the City of Milpitas. The intended user of this appraisal is the City of Milpitas and the intended use is to assist in setting city-wide in-lieu park fees to be charged to developers.

The City has stated that a new city park is most likely to be located in the Transit Oriented and the Midtown Specific Planning Areas. Though these two planning areas have sites with commercial, industrial, and mixed-use designations, the majority of the acreage within both planning areas are zoned for High Density Residential. Also, it is residential use that triggers the need for parks and the desire is to have the parks within or adjacent to new residential development. Therefore, we considered only land sales intended for residential use. Though we are not evaluating a specific parcel, our primary purpose is to provide an opinion of value of a hypothetical one-acre site therefore, our conclusions are considered an appraisal.

### East Bay Office

140 Town & Country Dr.

Suite F

Danville, CA 94526

Phone 925-855-4950

Fax 925-855-4951

### Silicon Valley Office

520 S. El Camino Real

Suite 342

San Mateo, CA 94402

Phone 650-212-1076

Fax 925-855-4951

### Sacramento Office

111 Woodmere Road

Suite 140

Folsom, CA 95630

Phone 916-357-5860

Fax 916-357-5868

Mr. Steven G. McHarris  
City of Milpitas  
Page 2

Based on our investigation and analysis, as described in the attached report, it is our opinion that the Average Market Value of the Fee Simple Estate in a potential park site location in the City of Milpitas Mid-Town and Transit Area Specific Plan areas, subject to the attached Extraordinary and General Assumptions and Limiting Conditions, and any Hypothetical Condition, as of December 1, 2014, is:

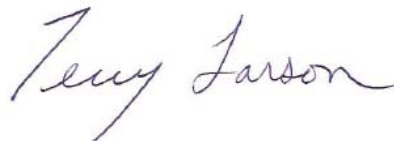
**\$64.00 per square foot**  
**or**  
**\$2,787,840 per acre**

The attached report contains the factual data and reasoning upon which the appraisal has been predicated. This report has been written in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), the Appraisal Institute Standards, and the City of Milpitas.

Please see the General and Extraordinary Assumptions and Limiting Conditions and Hypothetical Conditions regarding the values presented in this appraisal report, as shown in Section I - Introduction.



William O. Hurd, MAI  
Certified General Real Estate Appraiser  
State of California #AG034899, exp. date 8-17-2016



Terry S. Larson, MAI  
Certified General Real Estate Appraiser  
State of California #AG007041, exp. date 11-30-2016

WOH, TSL  
enclosure

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## **SUMMARY OF SALIENT FACTS AND CONCLUSIONS**

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|                                    |   |
|------------------------------------|---|
| Client:                            | City of Milpitas  |
| Intended User:                     | City of Milpitas  |
| Property Location:                 | Milpitas Mid-Town & Transit Area<br>Specific Plan Areas   |
| Property Type:                     | Potential Park Land   |
| Assessor's Parcel Number:          | N/A   |
| Land Area:                         | Hypothetical One-Acre Parcel  |
| Zoning:                            | Residential   |
| General Plan:                      | Residential   |
| Flood Hazard Zone:                 | No  |
| Alquist Priolo Special Study Zone: | No  |
| Present Use:                       | Residential   |
| Highest and Best Use:              | Residential – Suitable for Park Land  |
| Estate Appraised:                  | Fee Simple  |
| Purpose of the Appraisal:          | Determine the Average Price of a<br>Hypothetical one-acre site  |
| Value Premise:                     | Vacant and Ready for Development  |
| Appraisal Date:                    | December 1, 2014  |
| Average Market Value:              | \$64.00 per square foot<br>or<br>\$2,787,840 per acre   |
|                                    | Subject to the attached General and<br>Extraordinary Assumptions and Limiting<br>Conditions   |
| Appraisers:                        | William O. Hurd, MAI<br>Certified General Real Estate Appraiser<br>State of California #AG034899<br>Exp. date 8-17-2016<br><br>Terry S. Larson, MAI<br>Certified General Real Estate Appraiser<br>State of California #AG007041<br>Exp. date 11-30-2016 |

## CERTIFICATION


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We certify that, to the best of our knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
4. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice.
8. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
9. No one provided significant real property appraisal assistance to the persons signing this certification.
10. We are not evaluating a specific parcel, but rather providing a mathematical conclusion to be used in the Milpitas Mid-Town and Transit Area Specific Plan areas. Because the purpose of this assignment is to provide an opinion of value of a Hypothetical one-acre site, this is considered an appraisal. Mr. Terry S. Larson, MAI, has had personal discussions with the City of Milpitas regarding the scope and structure of this appraisal.
11. As of the date of this report, William O. Hurd, MAI and Terry S. Larson, MAI have completed the requirements under the continuing education program for Designated Members of the Appraisal Institute.
12. While not limited to a specific property, Smith & Associates has done a similar appraisal for the City of Milpitas in-lieu park fees within the three-year period immediately preceding acceptance of this assignment.



William O. Hurd, MAI  
Certified General Real Estate Appraiser  
State of California #AG034899, exp. 8-17-16



Terry S. Larson, MAI  
Certified General Real Estate Appraiser  
State of California #AG007041, exp. 11-30-16

## GENERAL ASSUMPTIONS

---

*This appraisal has been made with the following General Assumptions. An Assumption is defined as: "that which is taken to be true".*

1. No responsibility is assumed for the legal description provided or for matters pertaining to legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.
3. Responsible ownership and competent property management are assumed.
4. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.
5. All engineering studies are assumed to be correct. The plot plans and illustrative material in this report are included only to help the reader visualize the property.
6. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.
7. It is assumed that the property is in full compliance with all applicable federal, state, and local environmental regulations and laws unless the lack of compliance is stated, described, and considered in the appraisal report.
8. It is assumed that the property conforms to all applicable zoning and use regulations and restrictions unless a nonconformity has been identified, described, and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the opinion of value contained in this report is based.
10. It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.

## **GENERAL ASSUMPTIONS - CONTINUED**

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11. Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, and other potentially hazardous materials may affect the value of the property. The value estimated is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for such conditions or for any expertise or engineering knowledge required to discover them. The intended user is urged to retain an expert in this field, if desired.

## **GENERAL LIMITING CONDITIONS**

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*This appraisal has been made with the following General Limiting Conditions. A Limiting Condition is defined as: "a condition that limits the Use of an Appraisal".*

1. Any allocation of the total value estimated in this report between the land and the improvements applies only under the stated program of utilization. The separate values allocated to the land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
2. Any opinions of value provided in the report apply to the entire property, and any proration or division of the total into fractional interests will invalidate the opinion of value, unless such proration or division of interests has been set forth in the report.
3. Possession of this report, or a copy thereof, does not carry with it the right of publication.
4. The appraiser, by reason of this appraisal, is not required to give further consultation or testimony or to be in attendance in court with reference to the property in question unless arrangements have been previously made.
5. Disclosure of the contents of the appraisal report is governed by the Bylaws and Regulations of The Appraisal Institute.
6. Neither all, nor any part of the content of the report, or copy thereof (including conclusions as to the property value, the identity of the appraiser, professional designations, reference to any professional appraisal organizations, or the firm with which the appraiser is connected) shall be used for any purposes by anyone but the client specified in the report without the previous written consent of the Appraiser; nor shall it be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the appraiser. Any other party who uses or relies upon any information in this report, without the preparer's written consent, does so at their own risk.

## **EXTRAORDINARY ASSUMPTIONS**

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*This appraisal has been made with the following Extraordinary Assumptions. An Extraordinary Assumption is defined as: “an assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser’s opinions or conclusions”. The use of the Extraordinary Assumptions might have affected the assignment results.*

1. This Appraisal is intended to determine the Average Market Value of a hypothetical one-acre parcel of land in the City of Milpitas Mid-Town and Transit Area Specific Plan areas with the potential of being developed with a park. This report does not consider any individual property, but rather looks at the Average Sales Price per Acre for residential land in the Milpitas Mid-Town and Transit Area Specific Plan areas.

## **HYPOTHETICAL CONDITIONS**

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*This appraisal has been made with the following Hypothetical Conditions. A Hypothetical Condition is defined as: “a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis”. The use of the Hypothetical Conditions might have affected the assignment results.*

1. None



## **IDENTIFICATION OF THE PROPERTY**

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This Appraisal is intended to determine the Average Market Value of a hypothetical one-acre parcel of land in the City of Milpitas Mid-Town and Transit Area Specific Plan areas with the potential of being developed with a park. This report does not consider any individual property, but rather looks at the Average Sales Price per Acre for residential land in the Milpitas Mid-Town and Transit Area Specific Plan areas.

## **PURPOSE AND PROPERTY RIGHTS APPRAISED**

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The purpose of the appraisal is to provide an opinion of the Average Market Value of a hypothetical one-acre parcel of land in the City of Milpitas Mid-Town and Transit Area Specific Plan areas with the potential of being developed with a park. The property rights are those of the Fee Simple Estate.

## **INTENDED USER AND INTENDED USE**

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The intended user of this appraisal is the City of Milpitas and the intended use is to assist in setting city-wide in-lieu park fees to be charged to developers in the Mid-Town and Transit Area Specific Plan areas. It is not to be used by any other entity for any purpose without the written consent of the appraisers. The appraisers are not responsible for unauthorized distribution and/or use of this report.

## **EFFECTIVE DATE OF THE APPRAISAL**

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The effective date of the appraisal is December 1, 2014.

## **COMPETENCY PROVISION**

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The appraisers possess both the knowledge and required ability to appraise property within the City of Milpitas. It is within the Smith & Associates, Inc. defined service area and the appraisers have the required resources, including zoning information, Assessor's records, Multiple Listing Service, Loopnet, Landvision and CoStar Comps, Inc. The appraisers affiliated with Smith & Associates, Inc. have appraised numerous properties of a similar type in the area and its competing environment. **Please see a copy of the appraiser's qualifications in the Addenda.**

## DEFINITIONS

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### Fee Simple Estate

*"Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."*<sup>1</sup>

### Market Value

*"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:*

- a. Buyer and seller are typically motivated;*
- b. Both parties are well informed or well advised, and acting in what they consider their own best interests;*
- c. A reasonable time is allowed for exposure in the open market;*
- d. Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and*
- e. The price represents the normal consideration for the property sold unaffected by creative financing or sale concessions granted by anyone associated with the sale."*

<sup>2</sup>

### Average or Central Tendency

*"The tendency of samples to cluster around a central point, or representative value, in a frequency distribution."*

### As Is Market Value

*"The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date."*<sup>3</sup>

### Cash Equivalency

*"An analytical process in which the sale price of a transaction with nonmarket financing or financing with unusual conditions or incentives is converted into a price expressed in terms of cash."*<sup>4</sup>

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<sup>1</sup> The Dictionary of Real Estate Appraisal, 5<sup>th</sup> Edition 2010, The Appraisal Institute, Page 78

<sup>2</sup> Office of the Comptroller of the Currency (OCC), 12 CFR Part 34, The Dictionary of Real Estate Appraisal, 5<sup>th</sup> Edition, Page 123 and FIRREA

<sup>3</sup> The Dictionary of Real Estate Appraisal, 5<sup>th</sup> Edition 2010, The Appraisal Institute, Page 12

<sup>4</sup> The Dictionary of Real Estate Appraisal, 5<sup>th</sup> Edition 2010, The Appraisal Institute, Page 30

## **SCOPE OF THE APPRAISAL**

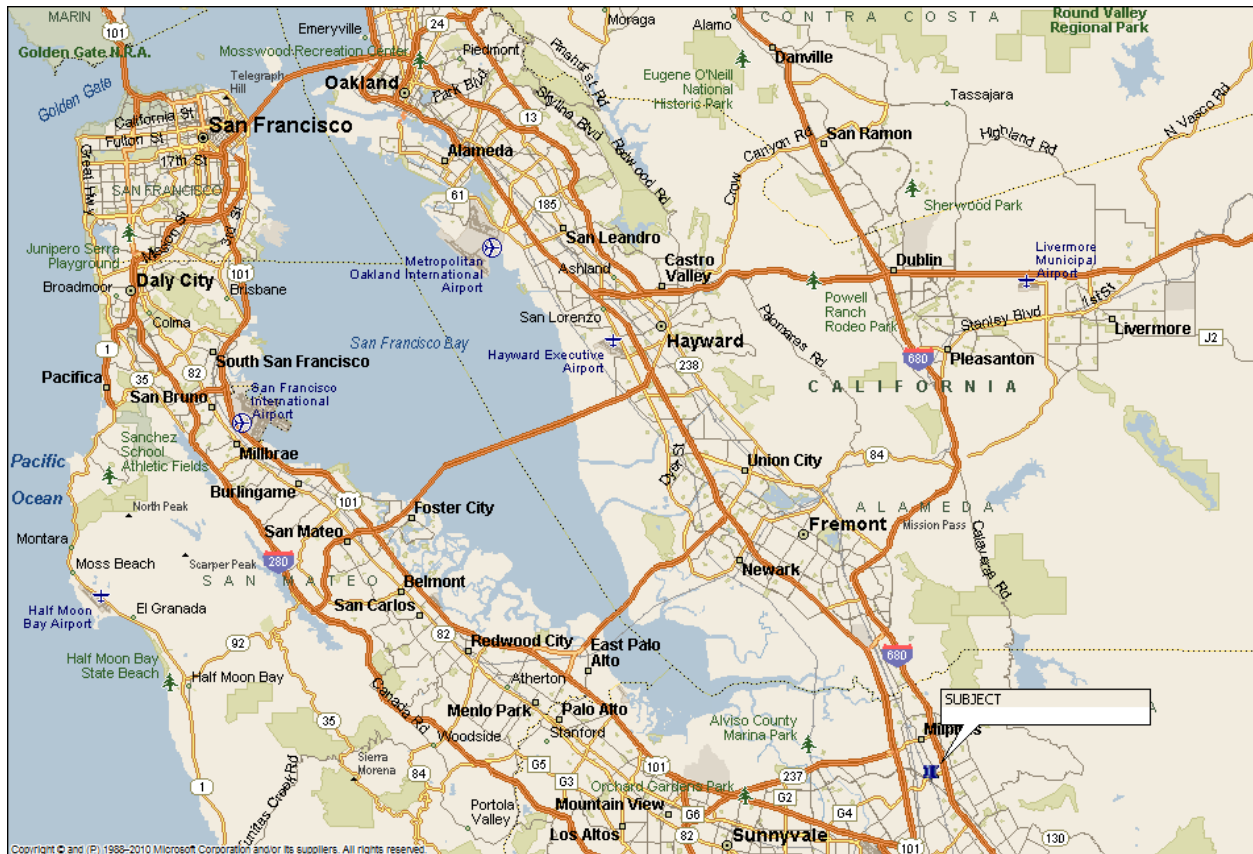
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Per the client's request, we have performed an appraisal and prepared an Appraisal Report. The methodology section of this report outlines the valuation procedures followed.

The specific steps in the appraisal process include the following:

- Research and analyze all of the applicable land sales within the City of Milpitas Mid-Town and Transit Area Specific Plan areas, or nearby areas with similar characteristics.
- The confirmation of the comparable sales was completed to the greatest extent possible and as many details of the transaction were confirmed with the participants of the transaction. These include but not limited to grantor and grantee, sale price, date, terms and conditions, development potential, number of residential units or square feet of commercial development, etc.
- An investigation of the sales was completed to the greatest extent possible. The most recent sales and those located in the City of Milpitas are given primary consideration. We also considered properties currently in contract and current listings.
- We investigated land sales that reflect residential land uses of high (20-40 DU/AC) and very high (41-60+ DU/AC) densities, typical of those in the two specific plan areas.
- Once the complete sample of sales was identified and verified, the sales were adjusted for the following characteristics; property rights conveyed, financing, conditions of sale (listings), market conditions (time) and physical condition. A market conditions adjustment is important as the market can change over time and older sales may need to be adjusted to reflect upward or downward trends to the current date of the consultation service.
- Physical conditions are important as parcels are in different stages of improvement and need to be adjusted to a similar base condition. We considered a base value assuming a vacant, level site with all street improvements including curbs, gutters, sidewalks, utilities, and street lights, but no development entitlements. All of the sales have been adjusted to this standard.
- Other adjustments for location, density, etc. are not made, as the aim is to represent an Average Per-Acre Value in Milpitas. These adjustments would be property specific and should not be made in estimating an average market value.
- Once the sales were adjusted, we then calculated a mathematical average per acre market value.
- Although we are not considering a specific property, this is an appraisal as the main purpose is to provide an opinion of value. Additionally, we have prepared a Summary Report that provides all of the necessary information to fully document the comparable sales and adjustments and explain the process leading to the final Average Per-Acre Determination of Market Value.

## **REGIONAL MAP**



## **REGIONAL ANALYSIS – SANTA CLARA COUNTY**

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Santa Clara County encompasses a total land area of approximately 1,034 square miles and most of the commercial and residential development as well as the county's population reside on the floor of the 225 square mile Santa Clara Valley. Topographical features that generally border Santa Clara County include the San Francisco Bay and its associated tidelands to the north, the Mount Hamilton Range to the east, the Santa Cruz Mountains to the south, and the Cupertino Foothills to the west.

Originally Santa Clara County was an agricultural area. Before 1945 the county consisted of mostly fruit and nut orchards mainly because of the ideal climate and topographical features gave the agricultural crops protection from elements. Following World War II returning GIs and their new families relocated to Santa Clara Valley, as it became an ideal place for living. During the 1950s, 1960s and 1970s, Santa Clara County experienced an unprecedented housing boom. New subdivisions were built for miles, creating an area of suburban sprawl.

Similar growth patterns are still occurring, but the lack of vacant land available for development, as well as the geographical constraints, has created a shortage of new housing. After the financial crash of 2008 and the Great Recession, the Valley is once again experiencing rising home prices and a lack of housing, largely due to the success of social media companies on the Peninsula and West Valley, such as Google, Facebook, and Yahoo.

## **Transportation**

Santa Clara County is well served by an extensive freeway system, major commercial expressways, commercial rail and passenger light rail systems, as well as an International Airport. Interstate 680, 880, and 280 connect with the west and east San Francisco Bay Areas and the rest of the state. US Highway 101 and State Highways 17, 85, 87 and 237 also add additional freeway access to most areas of Santa Clara County. The Lawrence, San Tomas, Capitol, Foothill, Montague and Central Expressways provide cross-valley routes that are superior to surface streets, but are slower than freeways. State Route 85 serves the south valley and results in a complete road system. This addition has been of great benefit to South Valley residents as it links them directly to employment centers in Cupertino, Sunnyvale, Mt. View, and the San Francisco Peninsula. Nevertheless the overall system is taxed by heavy traffic congestion during commute hours.

The Norman Y. Mineta San Jose International Airport is located northwest near the intersection of Interstate 880, US Highway 101, and State Highway 87 (the Guadalupe Expressway), in the northern part of the city. National and International flight availability is considered above average and is expanding. Additional Domestic and International flights are also available from Oakland and San Francisco International Airports, which are within 40 miles of the Evergreen Views (D.R. Horton) site. The Reid Hillview Municipal Airport is located along Capitol Expressway but this is a small domestic airport that caters to local businesses and recreation flyers.

Union Pacific Railroad provides commercial rail service that serves the industrial developments throughout the City of San Jose and Santa Clara Valley. These corridors are mostly located along Monterey Highway to the west. The Valley Transportation Authority (VTA) provides Light Rail and bus service countywide and the light rail system connects with Caltrain at the Diridon (downtown San Jose), Tamien, Castro (downtown Mountain View), and Evelyn stations. The original light rail system operated primarily from downtown San Jose to points north, where many residents were employed. However, the light rail lines are now expanding in many directions, becoming more of a full service provider every year. All local transportation improvements have been made in an effort to lighten auto traffic, but to date, success has been moderate. Amtrak provides passenger rail service out of San Jose and Santa Clara, and has a commute line to the south valley, Morgan Hill and Gilroy. A future Light Rail Station is planned to be located along Capitol Expressway, but the timing remains unknown due to funding constraints.

## **Population**

Between 1980 and 1990, the County of Santa Clara grew by 202,506 people. This growth represents a 16% increase in population. Similarly, between 1990 and 2000, the County grew by an additional 185,008, which accounts for a 12% change in population.

It is predicted that the County's population will continue to grow, but at a slower rate. Moderate rates of growth in employment and housing development may account for this slow down in population growth. According to the Census Bureau, the County of Santa Clara's population in 2010 was 1,781,642. From January 1, 2012 to January 1, 2013, the County of Santa Clara's population reportedly grew 1.6%, to 1,842,254. A May article in the San Francisco Chronicle stated that the City of San Jose's population and broken the 1,000,000 barrier and Santa Clara County was again the fastest growing county in the state.

## **Employment**

California's unemployment rate decreased to 7.3 percent in September 2014, and nonfarm payroll jobs decreased by 9,800 during the month for a total gain of 1,409,500 jobs since the recovery began in February 2010, according to data released today by the California Employment Development Department (EDD) from two separate surveys. The U.S. unemployment rate also decreased in September to 5.9 percent.

In September 2013, the unemployment rate was 8.8 percent. The unemployment rate is derived from a federal survey of 5,500 California households.

Nonfarm jobs in California totaled 15,530,500 in September, a decrease of 9,800 jobs over the month, according to a survey of businesses that is larger and less variable statistically. The survey of 58,000 California businesses measures jobs in the economy. The year-over-year change, September 2013 to September 2014, shows an increase of 297,000 jobs (up 1.9 percent).

## **Income**

High employment and high skill levels translate into high income. Santa Clara County is one of the most affluent metropolitan markets in the country. According to ABAG, the mean household income as of January 2000 was \$105,300 significantly higher than statewide or national mean incomes. However, the National, State, and Local Economy went into a significant recession in 2008 and mean household income has not rebounded to the levels reported from 1999 to 2001. Countywide Mean household income declined in 2005 about 11.43%, and according to the Census Bureau, the median household income from 2008 to 2012 was \$90,747. As with the population numbers, this does not take into account the strong growth over the past 2 years.

## **Regional Conclusion**

Santa Clara County is known as the high-technology center of the San Francisco Bay Area and the world. It has a diverse economic base with several industrial and office regional employment centers as well as having a large residential base. Physical features attract both businesses and residents.

While the Valley was one of the areas hit hardest at the start of the recession due to layoffs and a collapse in home values, it has again led the recovery and has done so at a pace faster than the rest of the state and nation. This area is still attractive to businesses for its location, transportation options, highly educated population, and access to capital. High tech is once again leading the way, particularly in social media, biotechnology, and alternative fuel research. While not out of control like the previous "bubble", median home prices in the Bay Area are up significantly in the past year. Inventory and interest rates are having an effect by not letting prices get out of control, a sign that Silicon Valley is still going strong and poised for a healthy growth period.

## **AREA AND NEIGHBORHOOD ANALYSIS**

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The City of Milpitas is located in the northeastern section of Santa Clara County, and it is bounded to the north by the City of San Jose and to the south of the City of Fremont. It is also part of the eastern portion of Silicon Valley. Land uses within the city are relatively diverse with most of the residential development located in the city's northern and eastern areas, while the industrial, research and development, and commercial uses are located primarily in the southern and western areas.

The City is well served by several transportation systems. Highways 680 and 880 run north-south through Milpitas connecting with the East Bay and Oakland to the north, while Highway 237 runs east-west, connecting with Highway 101 and the lower San Francisco Peninsula to the west. Highway 237 connects Highways 680 and 880. Access to and from Milpitas to all parts of the Bay Area, and beyond, is easy and direct by virtue of these three highways passing through the city. Lastly, the City has two Light rail stations that allow residents and employees to connect easily with the high tech and manufacturing companies in located in the City of San Jose, Silicon Valley, and Santa Clara County.

Between I-880 and Highway 680, commercial development is generally oriented along the major thoroughfares of Calaveras Boulevard, North & South Milpitas Drive, Jacklin Road, Montague Expressway, and Main Street. Just west of I-880 are the developing R&D, Office, and older manufacturing facilities north of Montague Expressway and along McCarthy Boulevard and Tasman Drive.

Along with R&D development, retail development has also been active in Milpitas. The McCarthy Ranch Marketplace was opened in 1994 and consists of a 550,000 square feet power center including such "big box" retailers as Wal-Mart, Office Max, and Pet-Smart. This center sold in 1999 for \$32 million. A number of small retail buildings on individual parcels are adjacent to the Marketplace and include a number of restaurants and fast food facilities. The Great Mall of Milpitas, consisting of mostly discount retailers, totals 1,300,000 square feet in an enclosed Super Regional Mall. It also opened in 1994 and sold in 1999 for \$130 million. Again, the central location and ease of access from the Bay Area highways has led to the development of Super Regional and Discount Malls.

Land uses in Milpitas include commercial, retail, R&D, and industrial to several classifications of residential. These include low density single-family at very low density (less than 1 dwelling unit per acre) to Very High Density Residential with densities that range from 40 dwelling units per acre to as high as 90 dwelling units per acre with a conditional use permit.

Other important considerations in Milpitas are the Milpitas Midtown Specific Plan and the Milpitas Transit Area Specific Plan. These are the areas where much of the future development and redevelopment activity is planned to take place and it is oriented towards mixed-use, high-density projects. The City has indicated that new City parks are likely to be needed in these two planning areas, and thus, we have focused our research attention in these two planning areas. Still, parks could be constructed in any and all zoning districts; therefore it is important to consider all types of land uses in determining land values.



This Milpitas Midtown Specific Plan provides a new vision for an area of approximately 942.9 acres of land that is currently undergoing changes as part of its growing role as a housing and employment center in the Silicon Valley. Development activity over the past several years has included approval and/or construction of 4,800 units of housing, reinvestment in the Great Mall, extension of the Santa Clara Valley Transportation Authority (VTA's) Tasman East Light Rail Line, and continuing work to extend BART through the area as part of the San Jose extension. Rather than responding to development proposals on a site by site basis, the City of Milpitas undertook a specific plan process in order to look comprehensively at the planning area and provide a cohesive vision for the future. The purpose of the Specific Plan is to:

- Guide the development and further evolution of the Milpitas Midtown Planning Area (Midtown),
- Encourage development that responds to City and regional objectives, such as a compatible mixture of residential, retail, and commercial uses,
- Reflect neighborhood considerations, and
- Encourage private investment in the area.

The overall strategy in the Midtown Area is to create a mixed-use community that includes high-density transit-oriented housing and a central community “gathering place”, while maintaining needed industrial, service, and commercial uses.

The plan is long-range in nature, intended to guide development for the next 20 years. Some land in the Midtown Area is undeveloped and readily developable over the short-term, while other parcels may be redeveloped over a longer time frame.

Overall, the Midtown Specific Plan provides for up to 4,860 new dwelling units and supporting retail development, new office developments at key locations, bicycle and pedestrian trails and new parks to serve residential development.

The Milpitas Transit Area Specific Plan presents a tremendous opportunity to transform an older industrial area into a vibrant high-intensity transit-oriented district. The site is unique in the Bay Area, offering large land acreages; access to two freeways and an expressway; two light rail stations and a future BART station that is under construction; property owners experienced in real estate development; the Great Mall as a retail anchor; and a City ready to facilitate new private sector development. The City undertook this Specific Plan in order to bring about an attractive and livable neighborhood that takes advantage of public investment in light rail and BART, and transforms an older light industrial district to meet high demand for housing, offices, and shopping in the Bay Area. The Plan creates a structure for a walkable, transit-oriented area with a mix of land uses, which thereby encourages walking, biking, and transit trips and minimizes vehicle trips. This type of development can accommodate substantial growth, minimize impacts on local roadways, and reduce urban sprawl at the periphery of the region.

### *Vision*

The City has established the following overall vision for the Milpitas Transit Area, balancing its goals for fiscal stability and quality development with regional objectives for housing and transportation.

### *Vision Statement*

Create attractive high density urban neighborhoods with a mix of land uses around the light rail stations and future BART station (under construction) in Milpitas. Create pedestrian connections so that residents, visitors, and workers will walk, bike, and take transit. Design streets and public spaces to create a lively and attractive street character, and a distinctive identity for each subdistrict.

### *Goals*

The following goals have guided the preparation of the Specific Plan and should be used to evaluate development proposals and any proposed future amendments to the Plan.

### *Land Use*

- Transition from older industrial uses to a high intensity mixed use area with housing, office, retail, restaurants, personal services, hotels, parks, and community facilities.
- Add a large amount of housing in order to meet regional housing needs. Adding housing improves the jobs/housing balance in the South Bay and can thereby reduce regional traffic congestion.
- Develop land uses and high densities that maximize transit ridership, so that land use planning supports the large public investment in transit facilities. Locate the highest densities closest to the transit stations.
- Provide a mix of land uses that responds to market demand over the next twenty years, and provides opportunities for complementary uses, such as by locating hotels and offices near retail and restaurants.
- Site neighborhood-serving retail uses in each subdistrict of the Transit Area so residents and workers can easily walk to shops, restaurants, and services.
- Develop retail and hotel uses and other revenue-generating uses to help support the cost of capital improvements and ongoing public services for residents and workers in the Transit Area.
- Minimize noise and traffic impacts on residences.

In summary these two specific plans will encompass over 1,383 acres and redevelop a majority of the underutilized industrial commercially improved sites. In total the two plans are designed to develop over 12,060 residential units, 1,720,000 square feet of office space, 661,000 square feet of highway commercial, retail, and general commercial space as well as 48 acres of parks and open space.

On the next page is a graphic summary from the Milpitas Planning Department showing all the projects that have already been approved. Many have started construction and some are near completion. Ten of the projects are in the Transit Area or Midtown Specific Plan Areas. Those project names are circled in yellow on this graphic and they account for a total of 4,286 dwelling units coming to market.

# CITY OF MILPITAS APPROVED PROJECTS

For Project and Owner Information: [http://www.ci.milpitas.ca.gov/government/planning/proj\\_approved.asp](http://www.ci.milpitas.ca.gov/government/planning/proj_approved.asp)

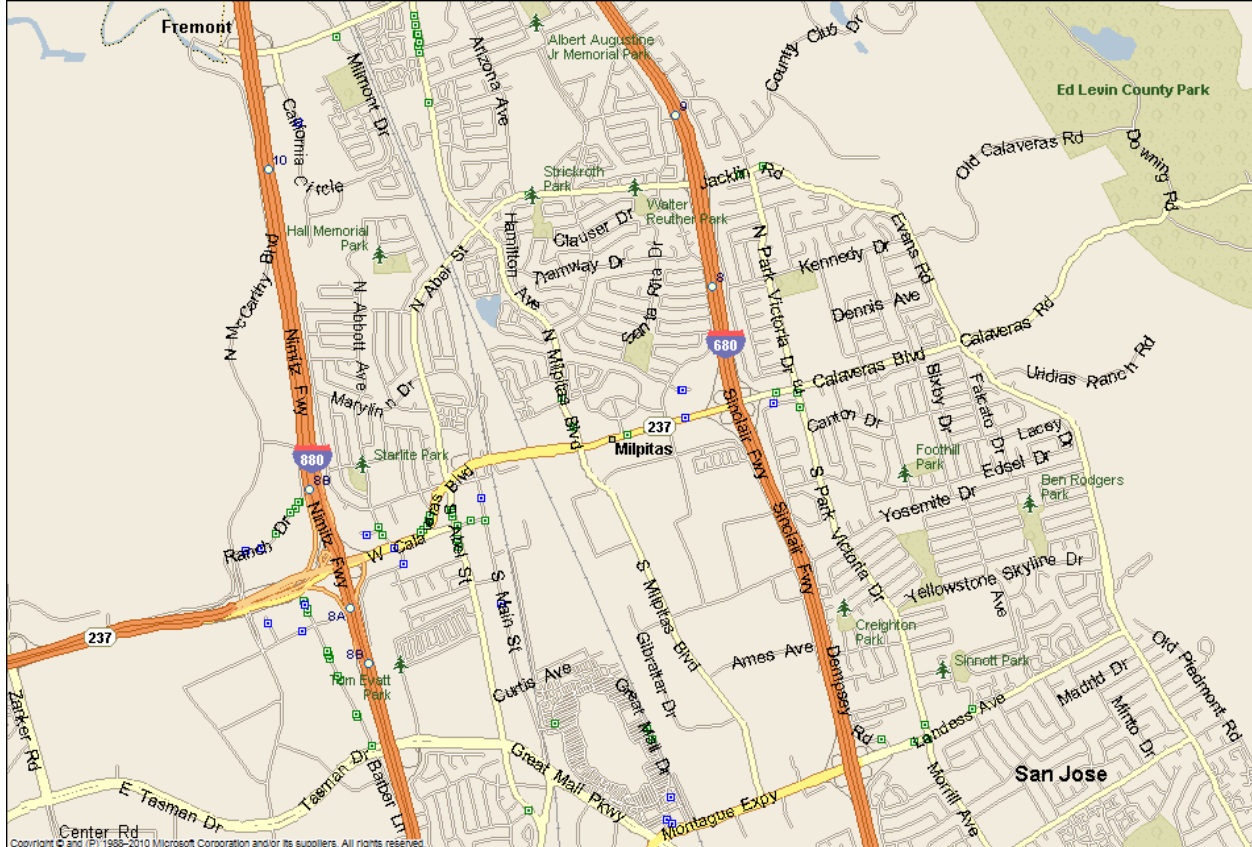
2008-2013



## **Conclusion**

With the improving economy and visible progress on the new BART station, Milpitas has been a hot spot for construction activity over the past year, with thousands of new units coming to market. The high cost of housing and commercial property in the West Valley and lack of available developable land has drawn business and residents to the community. Ease of access to the Bay Area freeway system also helps make this a desirable location.

## **CITY MAP**





## **NATIONAL AND STATE ECONOMIC CONDITIONS**

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The UCLA Anderson Forecast is one of the most widely watched and often-cited economic outlooks for California and the nation and was unique in predicting both the seriousness of the early-1990s downturn in California and the strength of the state's rebound since 1993. More recently, the Forecast was credited as the first major U.S. economic forecasting group to declare the recession of 2001. Below is their most recent report, published on September 11, 2014.

### **UCLA Anderson Forecast: National Economy Growing; Unemployment Rate Dropping; Defense Spending on the Rise California Recovery Continues at a "Painfully Plodding" Pace**

UCLA Anderson Forecast's third quarterly report of 2014 indicates that the real Gross Domestic Product for the United States will grow at about 3 percent over the next two years, following a decline of 2.1 percent in the first quarter of this year and a rebound of 4.2 percent growth in the second. On an annual basis, GDP growth will rebound a full percentage point in 2015 to 3.1 percent and to 3.4 percent in 2016. Payroll job growth should average 230,000 per month; by the end of 2016 the unemployment rate will drop to 5.3 percent. In California, employment growth is forecast to be 2.4 percent in 2015 and 2.2 percent in 2016, which will drive down the unemployment rate to 5.7 percent by 2016, just 0.3 percent higher than the U.S. rate.

#### **The National Forecast**

Highlights of the September forecast include an expected rise in inflation, as measured by the headline and core consumer price indices. UCLA Anderson Senior Economist David Shulman forecasts inflation at 2 percent or higher over the next two years, driven primarily by rising residential rents and increasing health care costs. The Federal Reserve Board could raise rates by March 2015, in response to declining unemployment and rising inflation. The sectors expected to fuel the nation's economic growth include housing, nonresidential construction and investment in equipment and software.

"Despite the housing recovery being slower than we anticipated, we forecast that housing starts will rise from this year's estimated 1.025 million units to 1.32 million and 1.47 million units in 2015 and 2016, respectively," Shulman writes. "Because of continuing investment in energy production and a revival in commercial construction, nonresidential construction will start to increase rapidly in mid-2015. In 2016, investment in nonresidential construction is forecast to expand at a robust 8.2 percent. Continued strength in equipment and software spending will continue to buoy the economy."

There is a major change from prior forecasts stemming from anticipation that defense spending will increase, rather than decline. Citing the rise of Islamic State of Iraq and the Levant (ISIL) in the Middle East, and the presence of Russian troops in Ukraine, Shulman writes that there will be a "rethinking" of the U.S.'s defense posture. The forecast models in an additional \$24 billion per year in defense spending by 2016.

"For those with a long memory, we would note that the Reagan defense build-up started under President Carter in 1979 after the Iranian Revolution and the Soviet invasion of Afghanistan," Shulman writes.

## **The California Forecast**

In the California forecast for September 2014, UCLA Anderson Senior Economist Jerry Nickelsburg writes, "The California economy is moving forward in an expansion from the depths of the Great Recession. But, even though the number of jobs is now higher than any time in the past, the state remains below its potential in output and employment. That we are entering the sixth year of expansion illustrates just how painfully plodding this recovery process has been."

The current forecast accounts for two countervailing forces that will be affecting the California economy: the U.S. economy is growing stronger, while the world economy is expected to be weaker. The result is a forecast that is only slightly stronger than that released in June.

In the housing sector, Nickelsburg notes that prices continue to rise in response to new household formation. "Construction permits have been increasing and our expectation is that this will continue through the forecast horizon," writes Nickelsburg. New home starts are expected to increase by 5 percent in California and nationwide. Job growth for 2016 is forecasted at 3 percent in California, rising more quickly than growth in the nation.

## **MARKET OVERVIEW**

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We are developing an estimate of residential land values in the Midtown and Transit Area Specific Plan areas of Milpitas, so we looked at both home re-sale values and new home/apartment development. Both are indicators of the trends in housing prices and demand for multi-family housing. As single-family home prices continue to rise, the trend is still toward multi-family housing – Apartments or condos in the very high density areas and townhomes in the medium to high density areas. Below is information on the overall housing industry from DataQuick and the Gregory Group, then Q4 Apartment research from Marcus & Millichap.

### **Housing Market – Excerpts from most recent DataQuick report**

#### **Strongest September for Bay Area Home Sales in Five Years; Prices Flat October 14, 2014**

The number of homes sold in the Bay Area last month edged up to its highest level for a September since 2009, the result of some spillover summer activity and sustained demand in a strong regional economy. Prices appear to have flattened out at a level reached this spring, Irvine-based CoreLogic DataQuick reported.

A total of 7,443 new and resale houses and condos sold in the nine-county Bay Area last month. That was down 1.8 percent from 7,578 in August and up 4.2 percent from 7,141 in September last year, according to CoreLogic DataQuick.

A decline in sales from August to September is normal for the season. Last month's sales count was the highest for any September since 7,879 homes were sold in 2009. Sales for the month of September have varied from 5,014 in 2007 to 13,343 in 2003. The average since 1988, when CoreLogic DataQuick's statistics begin, is 8,479.

The median price paid for a home in the nine-county Bay Area was \$604,000 in September. That was down 0.5 percent from \$607,000 in August, and up 14.0 percent from \$530,000 in September last year. The median sale price lurched above \$600,000 this April, when it was \$610,000, and then reached a 2014 high of \$618,000 in June. Since then the median has declined slightly on a month-to-month basis.

The Bay Area's median sale price peaked at \$665,000 in June and July 2007, then dropped to a low of \$290,000 in March 2009.

"Some analysts are re-calculating what they consider to be normal sales levels, taking out the 'loans-gone-wild' years of over-available credit. And if you do that, current sales are right in the normal range. We still have issues today, though. The mortgage market is still dysfunctional. There are categories of buying and selling that are still inactive, and nobody really has any idea just how much pent-up demand there is out there," said John Karevoll, CoreLogic DataQuick analyst.

|                  | Sales Volume  |               |               | Median Price     |                  |               |
|------------------|---------------|---------------|---------------|------------------|------------------|---------------|
| <b>All homes</b> | <b>Sep-13</b> | <b>Sep-14</b> | <b>% Chng</b> | <b>Sep-13</b>    | <b>Sep-14</b>    | <b>% Chng</b> |
| Alameda          | 1,468         | 1,613         | 9.9%          | \$510,500        | \$560,000        | 9.7%          |
| Contra Costa     | 1,385         | 1,460         | 5.4%          | \$409,000        | \$450,000        | 10.0%         |
| Marin            | 300           | 270           | -10.0%        | \$750,000        | \$880,000        | 17.3%         |
| Napa             | 131           | 108           | -17.6%        | \$431,500        | \$500,000        | 15.9%         |
| Santa Clara      | 1,753         | 1,732         | -1.2%         | \$640,000        | \$694,500        | 8.5%          |
| San Francisco    | 511           | 510           | -0.2%         | \$820,000        | \$938,000        | 14.4%         |
| San Mateo        | 561           | 656           | 16.9%         | \$680,000        | \$790,000        | 16.2%         |
| Solano           | 495           | 509           | 2.8%          | \$273,500        | \$305,000        | 11.5%         |
| Sonoma           | 537           | 585           | 8.9%          | \$409,500        | \$458,250        | 11.9%         |
| <b>Bay Area</b>  | <b>7,141</b>  | <b>7,443</b>  | <b>4.2%</b>   | <b>\$530,000</b> | <b>\$604,000</b> | <b>14.0%</b>  |

Source: DataQuick, [www.DQNews.com](http://www.DQNews.com)

## New Home Sales

The following chart for Santa Clara County is from The Gregory Group, which tracks new home development and sales. While the rate of increase has slowed some, median home prices have continued to rise. We have also included the totals for San Mateo County to show the upward pressure that that area puts on Silicon Valley.

| County/Community<br>(Average Price/<br>Quarter Sales) | 4th Qtr   | 1st Qtr<br>2013 | 2nd Qtr     | 3rd Qtr     | 4th Qtr   | 1st Qtr<br>2014 | 2nd Qtr     | 3rd Qtr     | Quarter<br>% Change | Year Ago<br>% Change |
|---|-----------|-----------------|-------------|-------------|-----------|-----------------|-------------|-------------|---------------------|----------------------|
| Santa Clara County                                    | \$677,344 | \$742,666       | \$767,580   | \$816,911   | \$888,335 | \$769,084       | \$803,307   | \$934,540   | 16.3%               | 14.4%                |
|   | 200       | 270             | 203         | 147         | 211       | 427             | 473         | 461         | -2.5%               | 213.6%               |
| <i>Gilroy</i>   | \$613,766 | \$674,477       | \$712,866   | \$724,490   | \$728,996 | \$647,781       | \$654,649   | \$667,488   | 2.0%                | -7.9%                |
|   | 24        | 8               | 11          | 2           | 12        | 27              | 100         | 52          | -48.0%              | 2500.0%              |
| <i>Milpitas</i>                                       | --        | --              | --          | --          | \$708,783 | \$704,053       | \$744,101   | \$746,737   | 0.4%                | --                   |
|   | --        | --              | --          | --          | 48        | 161             | 183         | 120         | -34.4%              | --                   |
| <i>Morgan Hill</i>                                    | \$718,315 | \$727,982       | \$727,766   | \$796,516   | \$819,729 | \$785,871       | \$795,063   | \$795,576   | 0.1%                | -0.1%                |
|   | 12        | 32              | 60          | 29          | 78        | 85              | 37          | 75          | 102.7%              | 158.6%               |
| <i>San Jose</i>                                       | \$587,752 | \$701,913       | \$756,050   | \$798,505   | \$760,805 | \$786,673       | \$850,887   | \$901,972   | 6.0%                | 13.0%                |
|   | 147       | 107             | 83          | 65          | 50        | 119             | 144         | 156         | 8.3%                | 140.0%               |
| <i>Sunnyvale</i>                                      | \$924,123 | \$905,271       | \$1,293,831 | \$1,250,426 | \$926,250 | \$926,250       | \$926,250   | \$1,206,491 | 30.3%               | -3.5%                |
|   | 15        | 53              | 13          | 18          | 11        | 25              | 2           | 33          | 1550.0%             | 83.3%                |
| San Mateo County                                      | \$801,270 | \$757,402       | \$861,736   | \$851,420   | \$854,350 | \$1,063,458     | \$1,044,620 | \$1,067,261 | 2.2%                | 25.4%                |
|   | 22        | 70              | 44          | 60          | 31        | 75              | 184         | 55          | -70.1%              | -8.3%                |

## Marcus & Millichap – Q4 2014 Apartment Research

### Rents Soar Higher Ahead of Construction Boom

Apartment properties in Silicon Valley are performing exceedingly well due to strong job growth in the technology sector and high home values. San Jose is the first large metropolitan area to record a median household income above \$100,000 per year, a major milestone and testament to how much tech firms are willing to pay for talented workers. Despite elevated incomes, monthly mortgage obligations on a median-priced home are more than \$2,000 above rents at 2000s-vintage apartments, leaving many residents in the renter pool. Additionally, young tech workers gravitate toward the lifestyle that rentals offer, particularly the new complexes that focus on community and include the latest technology. These trends are facilitating some of the strongest rent growth in the nation, which should continue unabated into 2015 when potential headwinds emerge. Already, the lowest-priced submarkets are facing tenant pushback as rents climb beyond what residents can afford. Additionally, a wave of new units will come online over the next two years, lifting Class A competition.

Some investors are stretching to meet higher prices in the apartment market, which are thinning the buyer pool, while fewer sellers are willing to place assets on the market when operations are improving. Although conditions are not conducive to high velocity, investors are awaiting opportunities to purchase apartment properties in the South Bay. The imbalance between buyers and sellers has compressed cap rates to low levels. Currently, first-year returns are in the low-4 percent range and can dip below 4 percent for best-in-class deals. Low interest rates are keeping spreads at manageable levels for new owners. When interest rates begin to climb next year, upward pressure on cap rates for leveraged deals will materialize quickly. All-cash plays, or lower-tier properties that trade as higher yields, will absorb the narrowing of spreads more easily. Buyers seeking these properties will look to east and south San Jose, though the amount of rent growth left in this cycle for properties in these areas is lower than in prime submarkets.



## **CONCLUSIONS**

While the economy continues to improve at a moderate pace, both the number and price of home sales are growing at slower rates. The salaries of most residents have not kept up with rising prices and this bodes well for communities on the periphery of Silicon Valley, like Milpitas, where housing is more affordable and transportation options are many.

Like at the end of last year, while construction and absorption continue, we have not seen many new land purchases. Much of the development is from builders who had land tied up for years, waiting for better conditions. Or, as in the case of comparable land sales 2 and 4, a developer buys a fully entitled project so they can build immediately and take advantage of the higher prices rather than go through the entitlement process themselves. With more than 4,000 dwelling units to absorb now, developers do not want to get too far ahead of the growth curve, particularly with interest rates being an unknown in 2015.

## **APPRAISAL METHODOLOGY – SALES COMPARISON APPROACH**

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The most common way of estimating land value is the Sales Comparison Approach in which recent sales or offerings of vacant land are gathered and analyzed. Typically, the values indicated by the comparable transactions are reduced to a unit of comparison such as sales price per square foot of land area, price per buildable unit, or price per square foot of developable building area. We should point out that many of these “land” sales have existing buildings on them that must be torn down. Because we are interested in the base land value we must include these demolition costs, since they are part of the cost to the buyer to get vacant land.

The land sales and listings developed for this assignment are displayed on the following **Comparable Land Sales Summary Tables**. Details and comments with respect to each sale are provided in the table, while discussions on adjustments to the unit of comparison are discussed in the following paragraphs. We have also included **Land Sales Adjustment Tables**.

The sales and listings are adjusted for property rights conveyed, financing, conditions of sale, market conditions (time), and physical factors, where necessary. Adjustments for other factors, such as location and density, etc. are not necessary as they would be property specific and should not be made in determining an average market value. The following narrative discussion will explain the adjustments for each comparable.

### **Land Sales Discussion**

The following tables identify several land sales that we believe are comparable for this appraisal. We have only added three sales since last year as much of the land in the TASP area was already tied up by developers. Comparable 3, on Piper Dr., has been tied up for years while working out entitlements but just closed at the beginning of this year. Comparable 5, on Trade Zone, actually resold again in July 2014, with Toll Brothers selling to Hovnanian Great Western Homes for \$57,500,000, or about \$108/s.f. However, it was fully entitled with approved project plans at that point so we have not added it to the chart.

*Criteria for researching and selecting comparable sales as follows:*

*Time:* As shown in the Market Overview, prices increased rapidly in 2013 and have done so at a slower pace in 2014. We have made appropriate upward adjustments for sales in those 2 years.

*Location:* We used only land sales in the two specific plan areas, so no location adjustment is necessary.

*Land Use:* The City has stated that a new city park is most likely to be located in the Transit Oriented and the Midtown Specific Planning Areas. Though these two planning areas have sites with commercial, industrial, and mixed-use designations, the majority of the acreage within both planning areas are zoned for High Density Residential. Also, it is residential use that triggers the need for parks and the desire is to have the parks within or adjacent to new residential development. Therefore, we considered only land sales intended for residential use.

| COMPARABLE RESIDENTIAL LAND SALES |  |  |                                |                  |   |   |  |
|-----------------------------------|--|--|--------------------------------|------------------|---|---|--|
|                                   | ADDRESS<br>APN   | BUYER  | SALE<br>DATE                   | LOT SIZE<br>S.F. | PRICE<br>TOTAL  | INTENDED<br>USE                                   | COMMENTS   |
|                                   |  | SELLER   | DOC #                          | ACRES            | PER SF  | ZONING  |  |
| 1                                 | 600 Barber Ln.<br>Milpitas<br>086-01-034                           | Singpoli Milpitas, LP<br>TP Pham, LLC                  | Nov-14<br>NA                   | 130,680<br>3.00  | \$21,000,000<br>\$150,000<br>\$21,150,000<br><b>\$161.85</b>  | 375-unit condos<br>125 DU/Ac<br>C                 | Fully Entitled<br>21,481 s.f. retail to demo<br>Technically out of SPA<br>but very high density              |
| 2                                 | 1316 Main St.<br>Milpitas<br>086-23-006                            | George Realty LLC<br>Washington Investment Props.      | Feb-14<br>22519522             | 17,424<br>0.40   | \$1,212,000<br><b>\$69.56</b>                                 | 20-unit Condo<br>50 DU/Ac<br>R4                   | Existing building and<br>old SFR to be demo'd.   |
| 3                                 | 1200 Piper Dr.<br>Milpitas<br>086-32-044                           | KB Home South Bay<br>SCS Development Company           | Jan-14<br>22495767             | 90,265<br>2.07   | \$13,690,000<br><b>\$151.66</b>                               | Fully Entitled<br>Phase I - 48 Units<br>R4/TOD    | Phase II will bring total<br>project to 94 townhomes.<br>23 DU/Ac.   |
| 4                                 | 25 S Abbott Ave<br>Milpitas<br>022-28-010                          | Community First School<br>Union Bank of California     | Dec-13<br>22473400             | 14,985<br>0.34   | \$530,000<br><b>\$35.37</b>                                   | School<br>C1                                      | REO Sale   |
| 5                                 | 573-625 Trade Zone<br>Milpitas<br>086-36-003, 004, 005 & 006       | Toll Brothers<br>Warmington Residential                | Aug-13<br>22337612             | 544,936<br>12.51 | \$46,000,000<br>\$60,000<br>\$46,060,000<br><b>\$84.52</b>    | 206 Units<br>22.91 DU/Ac net<br>R-3 - TOD         | Fully Entitled<br>Small auto salvage<br>buildings to demolish  |
| 6                                 | 573 Trade Zone<br>Milpitas<br>086-36-006                           | Warmington Residential<br>David & Irene Pimik          | Aug-13<br>22337608             | 197,418<br>4.53  | \$10,000,000<br><b>\$50.65</b>                                | Assemble with<br>adjacent parcels<br>(See sale 4) | Subject to Entitlements  |
| 7                                 | 1316 Main St.<br>Milpitas<br>086-23-006                            | Washington Investment Props.<br>Jorgensen Living Trust | May-13<br>22273694             | 17,424<br>0.40   | \$900,000<br><b>\$51.65</b>                                   | Medical<br>CSS                                    | Resold for residential<br>use before development<br>(see Sale 1)   |
| 8                                 | 1201 S. Main St<br>Milpitas<br>086-16-100                          | Shea Properties<br>Matteson Companies                  | Aug-12<br>21793603             | 118,483<br>2.72  | \$7,750,000<br><b>\$65.41</b>                                 | 204 Apts.<br>R4 w/TOD overlay<br>75 DU/Ac         | Subject to Entitlements  |
| 9                                 | 1625-1845 McCandless Dr.<br>Milpitas<br>846-41-019, 020, 021 & 022 | DR Horton<br>Mission West Properties                   | Aug-12<br>21782673<br>21536587 | 534,481<br>12.27 | \$22,600,400<br>\$1,300,000<br>\$23,900,400<br><b>\$44.72</b> | 276 Units<br>22.5 DU/Ac<br>R-3                    | Subject to Entitlements<br>\$1,300,000 for demo of<br>three industrial buildings<br>< 1/2 mile to light rail |
| 10                                | Trade Zone Blvd. & Montague<br>Milpitas<br>086-36-043              | Trumark Companies<br>Mission West Properties           | Jul-12<br>21741832             | 361,548<br>8.30  | \$18,500,000<br>\$1,043,000<br>\$19,543,000<br><b>\$54.05</b> | 134 Units<br>16 DU/Ac<br>R-3                      | Subject to Entitlements<br>\$1,043,000 for demo of<br>three industrial buildings<br>< 1/2 mile to light rail |
| 11                                | 1435-1620 McCandless Dr.<br>Milpitas<br>086-33-094, 095, 098, 099  | Taylor Morrison<br>Mission West Properties<br>LP V     | Apr-12<br>21646463             | 420,790<br>9.66  | \$19,350,000<br>\$1,000,000<br>\$20,350,000<br><b>\$48.36</b> | 200 Townhomes<br>20.7 DU/Ac<br>R-3/PD             | \$1,000,000 for demo of<br>4 industrial buildings<br>1/3 mile to light rail<br>Subject to Entitlements       |

As stated at the beginning of this section, we are estimating the value of vacant land. Therefore, an estimate of demolition costs has been included with each sale that has site improvements, to get the true price paid for the land only.

### **Adjustments to the Comparables**

All of the pertinent information for the comparables is presented in the Summary Tables and only adjustments to the sales will be discussed here. Since we are providing an opinion of the Average Market Value of a hypothetical one-acre parcel of land for the City of Milpitas and not a specific property, the overall adjustments are minor.

### ***Market Conditions***

As mentioned earlier, all sales have been adjusted upward due to the strong growth over the past two years.

## Entitlements

All of the sales, except for Sales 1, 3 and 5, went into escrow “subject to entitlements.” This means that during the escrow period, the buyer initiates and pays for all the steps to get an entitled project. If their original expectations cannot be executed, they have the ability to walk away from the deal with only the loss of a deposit in most cases. But this seems to be the typical way that un-entitled land is purchased – it will be entitled by the time escrow closes, but the buyer pays for the entitlement process on top of the price they paid for the un-entitled land. Sale 3, however, went through a lengthy entitlement process, with many variations on density, type of product, and configuration. Sale 5 was purchased fully entitled for a 206-unit project. Warmington Residential assembled the parcels and got all approvals for the project. They then sold the project to Toll Brothers, who can now start construction immediately and take advantage of the current high home values. The entitled land sold for just over \$84/s.f. By comparison, Sale 6 shows the purchase of one of the four parcels that Warmington bought for the project, for approximately \$50.65/s.f. The difference between the two prices is what Warmington earned for the entitlement process. Since our hypothetical benchmark parcel is un-entitled, we must apply a significant downward adjustment to Sales 1, 3 and 5.

## Conclusion

While we have attempted to adjust the sales to the hypothetical subject property for the differences identified in the adjustment grid, it must be remembered that the adjustment process is not an exact science. It reflects the appraiser’s judgment regarding these differences and their magnitude relative to the overall sale price. The table below summarizes these adjustments and then averages the values, both with and without the San Jose sale.

| COMPARABLE LAND SALES - RESIDENTIAL |          |         |          |         |         |         |         |         |         |         |         |
|-------------------------------------|----------|---------|----------|---------|---------|---------|---------|---------|---------|---------|---------|
| ELEMENT OF COMPARISON               | SALE 1   | SALE 2  | SALE 3   | SALE 4  | SALE 5  | SALE 6  | SALE 7  | SALE 8  | SALE 9  | SALE 10 | SALE 11 |
| DATE OF SALE                        | Nov-14   | Feb-14  | Jan-14   | Dec-13  | Aug-13  | Aug-13  | May-13  | Aug-12  | Aug-12  | Jul-12  | Apr-12  |
| BASE PRICE PER SF LAND              | \$161.85 | \$69.56 | \$151.66 | \$35.37 | \$84.52 | \$50.65 | \$51.65 | \$65.41 | \$44.72 | \$54.05 | \$48.36 |
| PROPERTY RIGHTS CONVEYED            | 0.0%     | 0.0%    | 0.0%     | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| ADJ. PRICE                          | \$161.85 | \$69.56 | \$151.66 | \$35.37 | \$84.52 | \$50.65 | \$51.65 | \$65.41 | \$44.72 | \$54.05 | \$48.36 |
| FINANCING TERMS                     | 0.0%     | 0.0%    | 0.0%     | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| ADJ. PRICE                          | \$161.85 | \$69.56 | \$151.66 | \$35.37 | \$84.52 | \$50.65 | \$51.65 | \$65.41 | \$44.72 | \$54.05 | \$48.36 |
| CONDITIONS OF SALE                  | 0.0%     | 0.0%    | 0.0%     | 20.0%   | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| ADJ. PRICE                          | \$161.85 | \$69.56 | \$151.66 | \$42.44 | \$84.52 | \$50.65 | \$51.65 | \$65.41 | \$44.72 | \$54.05 | \$48.36 |
| MARKET CONDITIONS (TIME)            | 0.0%     | 0.0%    | 0.0%     | 5.0%    | 5.0%    | 5.0%    | 5.0%    | 10.0%   | 10.0%   | 10.0%   | 10.0%   |
| ADJ. PRICE                          | \$161.85 | \$69.56 | \$151.66 | \$44.56 | \$88.75 | \$53.19 | \$54.24 | \$71.95 | \$49.19 | \$59.46 | \$53.20 |
| LOCATION                            | 0.0%     | 0.0%    | 0.0%     | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| PHYSICAL CHARACTERISTICS            |          |         |          |         |         |         |         |         |         |         |         |
| STREET IMPROVEMENTS                 | 0.0%     | 0.0%    | 0.0%     | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| ENTITLEMENTS                        | -40.0%   | 0.0%    | -40.0%   | 0.0%    | -30.0%  | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| UTILITY/USE                         | 0.0%     | 0.0%    | 0.0%     | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| TOTAL ADJUSTMENT                    | -40.0%   | 0.0%    | -40.0%   | 0.0%    | -30.0%  | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| INDICATED PRICE PER SF LAND         | \$97.11  | \$69.56 | \$91.00  | \$44.56 | \$62.12 | \$53.19 | \$54.24 | \$71.95 | \$49.19 | \$59.46 | \$53.20 |

All Sales **\$64.14**

## **FINAL VALUE RECONCILIATION**

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With respect to reconciliation, there is, in this case, only one applicable approach to value, the Sales Comparison Approach. As a result, this is the sole basis for the value conclusion. The Sales Comparison Approach to value is believed to be the most relevant indicator of value, as it is the most likely method of valuation for vacant land.

Because most of the sales occurred prior to 2014, the average land price has not changed much over the past year. With so many projects currently under construction, it is difficult to predict how much demand there will be for new land in the next 12 months within the two special plan areas as this product is absorbed by the market. One developer told us that land sales are probably low because available land is getting harder to find. But if un-entitled land can be purchased without overpaying, it is a good time to buy because much of the current product under construction will have been absorbed by the time the land is entitled and ready to build. In any case, it is clear that Milpitas is well positioned to benefit from the strong tech growth under way, given its transportation options and real estate values that are still more affordable than the Peninsula. As the new BART station gets closer to reality there will be continued upward pressure on the dwindling supply of land for redevelopment.

Based on our investigation and analysis, it is our opinion that the Average Market Value of the Fee Simple Estate in a potential park site location in the City of Milpitas Mid-Town and Transit Area Specific Plan areas, subject to the attached General and Extraordinary Assumptions and Limiting Conditions, and any Hypothetical Conditions, as of December 1, 2014, is:

**\$64.00 per square foot**  
**or**  
**\$2,787,840 per acre**

# William O. Hurd, MAI

California General Certified Real Estate Appraiser No. AG034899

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## SUMMARY

After 20+ years in the technology industry, Mr. Hurd has been a professional real estate appraiser and consultant in Northern California since 2004. He is a designated member of the Appraisal Institute, with appraisal experience in the entire San Francisco Bay Area and Sacramento. Mr. Hurd has lived in the Bay Area for over 30 years.

Property types valued and analyzed include the following:

- \* *Commercial (Office, Medical, Retail, Restaurant)*
- \* *Industrial (Warehouse, Light Industry, Production)*
- \* *Vacant Land (Commercial, Industrial, Mixed-Use)*
- \* *Specialty (Eminent Domain, Right-of-Way, Arbitration)*
- \* *Subdivision (Lots, SFR, Condominiums)*

## WORK HISTORY

|                |                        |                          |
|----------------|------------------------|--------------------------|
| 2004 - Present | Commercial Appraiser   | Smith & Associates, Inc. |
| 2003 - 2004    | Owner                  | Twin Oak Properties      |
| 2001 - 2003    | V.P. Bus. Development  | Imperial Technology      |
| 1999 - 2001    | Dir. Field Services    | Provato                  |
| 1988 - 1998    | Dir. Sales Engineering | Sybase                   |
| 1980 - 1988    | Technical Sales        | AT&T                     |

## ASSIGNMENTS OF INTEREST

- Litigation support for both public agencies and private land owners
- Prepared preliminary budgetary valuation studies for several hundred properties for the proposed BART extension from Fremont to San Jose and Santa Clara
- Appraised land for several redevelopment projects for the Sacramento Housing and Redevelopment Agency
- Completed rent surveys and full appraisals for both regional and international airports
- Prepared Public Land Acquisition Value appraisal for City of Elk Grove
- Appraised over 20 properties and provide ongoing support for Capitol Expressway Light Rail Project in San Jose

## EDUCATION

*Bachelor of Science, Psychology                      University of Dayton, Dayton, Ohio*

*Anthony Schools Courses: Basic Real Estate Appraisal; Legal Considerations in Appraisal; Math and Regulations for Appraisers; Uniform Standards of Professional Appraisal Practice*

*Appraisal Institute Courses: Advanced Income Capitalization; Subdivision Valuation; Advanced Highest and Best Use; Narrative Report Writing; Advanced Sales Comparison & Cost Approaches; Report Writing & Valuation Analysis; Advanced Applications; Uniform Appraisal Standards for Federal Land Acquisitions (Yellow Book); Wetlands, Waterways, and Unusual Land Valuation Issues; Condemnation Appraising: Principals and Applications*

## AFFILIATIONS

State of California Certified General Real Estate Appraiser, No. AG034899  
Member of the Appraisal Institute, MAI No. 13343

# **Terry S. Larson, MAI - Partner**

**California Certified General Real Estate Appraiser No. AG007041**

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## **QUALIFICATIONS**

Terry Larson has been a professional real estate appraiser and consultant in Northern California since 1981. He concentrates his work in the San Francisco Bay Area and Sacramento Regions, but has also performed national assignments in over twenty states.

Terry began his career with American Appraisal Associates, the largest full service valuation firm in the world, providing valuation services for real estate, personal property, and intangible business assets. As manager of the Northern California Real Estate Valuation Group, his staff and territory covered California and assignments across the country.

Upon joining Smith & Associates in 1997, Terry expanded the firm's territory into Santa Clara, San Mateo, San Francisco and Marin Counties and built a group of appraisers that emphasize litigation support, eminent domain, partial interest valuations and special purpose properties, including airport appraisals. With over \$2 billion in annual valuations, Smith & Associates has three offices to serve client needs; Danville in the East Bay, San Mateo in Silicon Valley and Folsom in the Sacramento Region.

Terry regularly provides litigation support services for property analysis and valuation, deposition and expert witness testimony, arbitration & mediation services in disputes regarding real estate values and fair rental rates, and related matters.

## **CLIENTS**

Banks and other lenders, developers, attorneys, private property owners, government agencies including cities and counties, the State of California, and the Federal Government. For a client list see our web page at [www.SmithAssociatesInc.com](http://www.SmithAssociatesInc.com).

## **EXPERT WITNESS TESTIMONY**

Testified in dozens of cases including eminent domain representing agencies and private property owners, fire damage, diminution in value, contract fraud, land slide and breach of fiduciary responsibilities in real estate transactions.

Qualified Expert Witness in Superior Court for Santa Clara, Contra Costa, Marin and Sacramento Counties. Testified at San Mateo County Tax Board regarding the Redwood Shores Special Assessment District with an estimated value of \$1 billion. Testified in Santa Clara County Criminal Court as a percipient witness in a real estate fraud case.

## **SPEAKING ENGAGEMENTS**

Southwest Chapter of the American Association of Airport Executives  
Appraisals and Lease Negotiations, January 2011

Santa Clara County Brokers Association  
Role of the Real Estate Appraiser, June 2008

Appraisal Institute Spring Litigation Conference  
Subsurface Easements, May 2013

# **Terry S. Larson, MAI - Partner**

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## **PROPERTY TYPES APPRAISED**

|             |   |
|-------------|---|
| Commercial  | Retail, Office, Apartments, Hotels, & Restaurants.  |
| Industrial  | Warehouse, Industrial, R&D, Mini-Storage, Manufacturing Plants, Truck Facilities, Cross Docks, & Corporate Campuses.  |
| Vacant Land | Industrial, Commercial, Agricultural, Residential & Mitigation.   |
| Specialty   | Golf Courses, Mixed-Use Projects, Food Processing, Jet Hangars, Fixed Base Operations, Sr. Housing, RV Parks, Right-of-Way, Easements, Detrimental Conditions, Partial Interests, Eminent Domain, Residential Subdivisions, Arbitration, Mediation & Appraisal Reviews. |

## **WORK HISTORY**

|                |                    |  |
|----------------|--------------------|--|
| 1997 – Present | Partner            | Smith & Associates, Inc.                   |
| 1996 - 1997    | Commercial Realtor | Cornish & Carey, Investment Services Group |
| 1988 - 1996    | Senior Appraiser   | Hulberg & Associates, Inc.                 |
| 1981 - 1988    | Appraisal Manager  | American Appraisal Associates, Inc.        |

## **EDUCATION**

Bachelor of Science, School of Business Finance, University of Oregon, 1980

### Appraisal Institute Courses:

Real Estate Appraisal Principles; Basic Valuation Procedures; Capitalization Theory and Techniques; Standards of Professional Practice; Case Studies in Real Estate Valuation; Valuation Analysis and Report Writing; Uniform Standards of Professional Appraisal Practice (USPAP); Case Studies in California Eminent Domain; Federal and State Laws and Regulations; The Appraisers Workfile; Appraisals for Estate Tax Purposes; Valuations of Partial Interests; Fractional Interest and Business; California's Condemnation Process; Appraisal of Nursing Facilities; Right of Way Acquisitions; Uniform Appraisal Standards for Federal Land Acquisitions (Yellow Book).

### International Right of Way Association Courses:

Appraisal of Partial Acquisitions; Eminent Domain Law, Basics for Right of Way; Issues in Eminent Domain Valuation; Telecommunications and Rights of Way.

## **PROFESSIONAL AFFILIATIONS**

State of California Certified General Real Estate Appraiser, License No. AG007041  
Member of the Appraisal Institute, MAI No. 11046  
Member of the International Right of Way Association, Member No. 2508